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Politics this week

Jan 16th 2003
From The Economist print edition

Keeping up the pressure

Reuters

President George Bush said that he was “sick and tired of games and deceptions” and Saddam Hussein should get rid of his **weapons of mass destruction**. The UN inspectors said they would not complete their search by January 27th. Hans Blix, their leader, revealed the discovery of illegally imported material and empty chemical warheads were also found. He gave warning that Iraq must co-operate more fully to avoid war.

See article: Emperor, shedding clothes

Spain said a new UN resolution authorising an attack on **Iraq** would not be necessary; Britain's Tony Blair, fighting off anti-war feeling in his own party and country, said it would be preferable; the Canadian government said it would be necessary. The United States formally asked NATO allies for at least indirect assistance if war comes.

See article: Tony Blair and Iraq

Mr Bush appeared to soften his line on **North Korea**: if the rogue regime agreed not to continue developing nuclear weapons, he would consider starting a “bold initiative” of food aid. North Korea spurned the advance, insisting on a non-aggression pact.

See article: Dealing with North Korea's nuclear defiance

Just good friends

Brazil, the United States and several other countries formed a group of “friends of **Venezuela**” to support the search for a negotiated end to the confrontation between President Hugo Chávez and his opponents. A six-week opposition strike, aimed at forcing an early election, has almost completely shut down Venezuela's oil industry, pushing up the price of oil. But there were some signs the strike might be weakening.

See article: Venezuela's costly strike

Lucio Gutiérrez, a populist former army colonel who led a failed coup in 2000, was sworn in as Ecuador's elected president.

See article: Ecuador's new president

Teleconferencing

Palestinian delegates, banned from travel by Israel, joined a London conference on **Palestinian reform** by video link. They condemned Palestinian suicide bombings in Israel, and Israeli military action in the occupied territories, and promised to provide the draft of a new constitution by the end of the month.

See article: Finding a voice in London

Saudi Arabia's Crown Prince Abdullah launched another big initiative, to be considered by the Arabs at their summit in March. Unlike last year's initiative, which laid down the basis for a full Middle Eastern peace, this one is inward-looking, calling for Arab reform based on greater political participation.

Israeli geologists claim that a stone tablet found by Muslim authorities at the Haram as-Sharif, or Temple Mount, is genuine. The tablet purportedly details repair plans for **Solomon's Temple** some 2,800 years ago.

AP

After four months of civil war in **Côte d'Ivoire**, France sponsored a peace conference in Paris, to which all political parties and rebel factions were invited.

See article: Côte d'Ivoire's peace conference

Robert Mugabe denied he had any intention of stepping down as **Zimbabwe's** president. While he was out of the country on holiday, members of his ruling party had approached the opposition about the possibility of forming a power-sharing government without Mr Mugabe.

See article: Plotting in Zimbabwe

An overloaded boat carrying Somalis to Yemen caught fire and capsized in the **Gulf of Aden**. At least 80 people died.

The future of Europe

Jacques Chirac and **Gerhard Schröder** met and agreed on a joint proposal to the convention drawing up a draft constitution for the EU: a stronger president for the European Commission, elected by the European Parliament; plus a longer-term one for the European Council, chosen by EU governments.

See article: Re-starting the EU's Franco-German motor

Italy's government approved a project for a bridge over the Strait of Messina to link Sicily with the mainland. Building should start in 2005.

Rauf Denktash and Glafcos Clerides, leaders of the rival **Cypriot** communities, met to discuss the UN plan to reunify the island. No agreement, but no breakdown of talks either.

See article: Cyprus and the magic of membership

A **British policeman** was stabbed to death as he and others arrested more North Africans suspected of involvement in an alleged plot to produce ricin poison.

See article: The enemy within

Czech legislators tried and failed to elect a new national president in succession to Vaclav Havel. The lower house backed Vaclav Klaus, a former prime minister, the senate a former senator, Petr Pithart.

See article: After Vaclav

Germany's government said that it would resubmit to the *Bundesrat* (parliament's upper house) an immigration law held up by a constitutional-court ruling that a previous vote there was invalid. The law, which would allow in skilled immigrants, is seen as a key reform.

With unemployment above 5%, **Portugal's** parliament debated changes to ease the country's rigid labour laws. The government meanwhile claimed that its budget deficit—in 2001 well above the EU limit of 3% of GDP—had been in 2002 below its target of 2.8% of GDP.

Running from behind

Senator Joe Lieberman, Al Gore's running mate in the 2000 election, said he intended to run for president in 2004. One sign of hope for the Democrats: George Bush's approval rating fell to 58%, its lowest point since the September 11th attacks.

See article: They're off

George Ryan, the outgoing governor of Illinois, granted clemency to all the 167 prisoners on death row because of doubts about the justice system. Earlier he freed four death-row inmates who he said had been tortured by police to make false confessions.

See article: The death-penalty argument continues

John Lee Malvo, the younger suspect in the **Washington sniper** case at 17 years old, will be tried as an adult, allowing prosecutors to seek the death penalty.

Bad memory

AP

Japan's prime minister, Junichiro Koizumi, angered neighbouring countries by visiting for the third year in a row the controversial **Yasukuni shrine**, dedicated to the memory of Japan's 2.5m war dead, including some war criminals. Former wartime sex slaves in South Korea demanded a Japanese apology; South Korea's president snubbed Japan's foreign minister during a visit to Seoul.

Across **Indonesia** protests continued against a rise in the price of fuel, electricity and phone calls. The increases are part of economic reforms agreed with the IMF.

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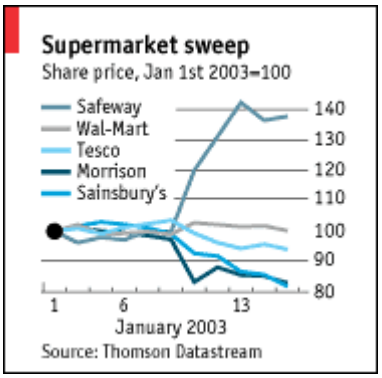
Business this week

Jan 16th 2003
From The Economist print edition

Supermarket dominance



Leading retailers are poised to enter the fray for control of **Safeway**, Britain's fourth-largest supermarket chain. A £2.6 billion ($4.2 billion) all-share offer from Wm Morrison, the fifth-largest, spurred promises of a £3 billion bid by Sainbury's, the second-largest. Wal-Mart, the world's largest retailer and owner of Asda, Britain's number three, is also set to make an offer. Competition authorities are expected to probe at least two and perhaps all three bids.

See article: Selling the shop

Kmart unveiled a plan in the hope of emerging from a year in Chapter 11 bankruptcy protection. The American discount retailer will lay off 37,000 employees—some 17% of the workforce—and close more than 320 of its 1,800 shops.

Striking on

General Electric was hit by its first strike in 30 years, after some 20,000 workers began two days of industrial action in protest at big rises in employees' contributions to the industrial giant's health-care plan. GE blames spiralling cost of medical treatment for the rise; the strikers point to the firm's record profits.

Airbus hopes to overtake **Boeing** in civil-aircraft production for the first time this year. The European firm plans to produce around 300 aircraft, compared with its American rival's aim of 280. Airbus tempered the good news with a warning that this year would be hard; and Boeing announced that it had won a big order from Australia's Virgin Blue airline.

See article: Big challenges facing Boeing

Pump it up

OPEC members agreed at a specially convened meeting to raise production quotas by 1.5m barrels a day to make up for supplies interrupted by an oil strike in Venezuela. Fears of a war in Iraq have contributed to high oil prices.

See article: OPEC intervenes

BP sold its Forties oil-field in the North Sea to an American independent, Apache, for $1.3 billion. BP is divesting some assets to concentrate on higher earners. The oil giant also confirmed that production had grown by only 3% in 2002 rather than a forecast 5.5%—the company repeatedly cut production forecasts last year, to investors' annoyance.

Sachs appeal

Goldman Sachs invested ¥150 billion ($1.3 billion) in Sumitomo Mitsui Financial Group, in return for

convertible shares equivalent to a 7% stake in the Japanese bank. Goldman is keen to repay a favour: in 1986 Sumitomo Bank invested $500m in Goldman Sachs to boost the firm's then depleted capital.

America's **faltering economic recovery** has yet to receive official confirmation. The National Bureau of Economic Research said that its business-cycle dating committee needed more time to determine whether the economy was growing or shrinking; and, if the second, whether it was a continuation of the old recession or a new one.

Open Windows

Microsoft, which used to say that the code for its Windows operating system was a vital piece of intellectual property, will hand it over to governments for nothing. Competitors were refused access to the code during the company's antitrust trial, but Microsoft is now trying to win further business from world governments, among the biggest buyers of its software.

Intel, the world's largest chipmaker, said profits in the fourth quarter had more than doubled over a year ago, to $1.1 billion. Despite the news, Intel said the market looked shaky and it would cut capital spending by $1.2 billion.

America's Supreme Court upheld a 1998 law extending all **copyright** protection by 20 years. The plaintiffs had argued that the extension, which benefits Disney and other media giants, breached the constitution's provisions on copyright.

See article: The entertainment industry

Case closed

Steve Case succumbed to pressure from shareholders and from within the company and resigned as chairman of **AOL Time Warner**. Mr Case is the last to leave of the key figures behind the merger of AOL and Time Warner three years ago. Dick Parsons, the group's chief executive, is tipped to take on the role of chairman too.

Walter Isaacson announced his departure as chairman of **CNN**, AOL Time Warner's news network, after only 18 months in charge. He will run the Aspen Institute, a think-tank.

Tommy Mottola surprised observers with his resignation as chairman and chief executive of Sony Music Entertainment. He will be replaced by a music industry outsider, Andrew Lack, now a top executive at NBC.

Bringing joy to children and still more to her publisher, J.K. Rowling submitted the long-awaited manuscript of "**Harry Potter and the Order of the Phoenix**", the fifth in the series. It will come out on June 21st.

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The entertainment industry

Lights! Camera! No profits!

Jan 16th 2003
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The biggest failing of the entertainment industry has been its mismanagement of creativity

LIKE so many Hollywood blockbusters, the misadventures of the entertainment industry over the past few years were always going to have a sequel. Unlike most film sequels, however, the follow-up to the reckless extravagance of the boom years might just turn out to be an improvement. With yet another clutch of media bosses ending up on the cutting-room floor, this might seem an unlikely moment to talk of brighter times for the business. The past week alone has seen a fresh burst of management departures: Steve Case from AOL Time Warner, one of the most troubled of the media giants, Tommy Mottola from Sony Music, a loss-making record company, and Walter Isaacson from CNN, a struggling cable-news channel. Yet, if the industry is ready to learn from its past follies, the script could this time have a happier ending.

On the face of it, things could not be worse for the world's media businesses. After a record slump in 2001, global advertising spending contracted last year by another 1%, according to UBS Warburg. Newspapers and magazines are having a dreadful time. Pearson expects profits at the Financial Times Group (part-owner of *The Economist*) for the second half of 2002 to be 20% below the same period of 2001. Dow Jones, publisher of the *Wall Street Journal*, reported a 56% fall year-on-year in operating profits in the first nine months of 2002. Two of Germany's top dailies, the *Süddeutsche Zeitung* and the *Frankfurter Allgemeine Zeitung*, are in financial disarray.

Other parts of the business are scarcely faring any better. The music industry has been battered by piracy and illegal online file-sharing. Global sales of recorded music dropped by as much as 9% in 2002. The media conglomerates that once promised a dazzling new world have been brought to their knees. Vivendi Universal, now being rudely dismembered by its new management and facing official investigations into past accounting practices, reported a staggering net loss of *euro*13.5 billion ($12.5 billion) in the first nine months of 2002. Most symbolic of all, AOL Time Warner marked this week's third anniversary of its much-trumpeted merger by shedding Mr Case, the founder of AOL and architect of the deal. The group is now worth only just over a quarter of its peak valuation of $260 billion, reached in mid-2001. At the end of this month, it is expected to announce a massive write-down for the fourth quarter of 2002 of some $10 billion.

Masked by all the gloom and despondency, however, something more promising is happening in the entertainment world: people are consuming the stuff as never before. Last year was an all-time record at the American box office, with cinema-ticket sales reaching $9.4 billion, up by 12% on a buoyant 2001. Sales of DVDs in America in 2002 soared by 61%. Video games also had a bumper year, with global sales of software and hardware reaching some $31 billion.

Demand for entertainment has not just held up during the media slump, but grown fast

Demand for entertainment has not just held up during the media slump, but grown fast. Consumer spending on media and entertainment in America rose by an annual average of 7% over the years 2000-02, according to Veronis Suhler, an investment bank that compiles a yearly survey of the industry. In the same period, spending on pay-television grew by an annual 8%, on video games by 9% and on newspapers by 2%. By 2002, the average American devoted 3% more time to some form of entertainment than in 2000. This was not just the effect of such snazzy new distractions as the internet or video games. American couch potatoes spent more time glued to the old-fashioned telly and listening to the radio too. Their voracious appetite shows no sign of slowing down. Consumer spending on entertainment is forecast by Veronis Suhler to expand in 2002-06 at an annual average of 6%. By 2006,

the average American is expected to spend 4% more time on it than he did in 2002. Entertainment, in short, is still a growing industry.

Gangs of New York

What explains the curious discrepancy between a rising consumer appetite for entertainment, and the collapse of profits at the companies that supply it? Plainly, the cyclical depression in advertising is in large part to blame. But three other structural explanations stand out. The first is an intensifying battle for the entertainment dollar. Over the past five years, Americans may have found more time to devote to entertainment, but they have also had far more choice. So they have spent a shrinking share of their budgets on some things—newspapers, magazines, books and recorded music—while boosting what they spent on video games, DVDs and pay-TV.

The second reason is the spread of online piracy. This has particularly knocked the music industry, but it has touched newspapers too, and it is now hounding Hollywood. Since 2001, global sales of CDs have been in decline, after years of growth. This has not been caused by any fall in demand for music. Despite the closure of Napster, millions of fans are illegally downloading music from Napster-like file-sharing services. The problem is that the record industry faces an incredibly hard task devising a profitable business model for online distribution.

In some ways, this struggle is familiar in the entertainment business, which has long been suspicious of new technologies. Hollywood feared that television, and then the video cassette, would kill cinema, the record industry that the recordable cassette would snuff out its business. None of these predictions came true. Yet the scale and ease of online piracy is a particular headache that Hollywood is only just facing up to. When film piracy takes off, admittedly, it is home video and DVD sales that are likely to suffer more than the box office: even for tech-savvy teenagers, a date in front of the PC cannot quite rival a night at the movies. But recently it has been pre-recorded videos and, especially, DVDs that have been crucial to Hollywood's profits.

Amid dizzying talk of convergence, so much attention, and cash, have been devoted to new forms of distribution that content has often been neglected

Perhaps the deepest explanation of the industry's woes, however, and one where the media moguls are the most to blame, is that it has been distracted from its core competence of manufacturing something that people will pay for (see article). Amid dizzying talk of convergence, so much attention (and cash) has been devoted to securing and developing new forms of distribution that the critical importance of content has often been neglected. Worse still, the rising power of artists and stars has meant that costs have soared out of control, particularly in the TV, film and music businesses; instant commercial returns were favoured over long-term investment in creativity.

For sure, securing distribution channels remains important. They help to give media conglomerates gate-keeping, promotional and bargaining clout. Yet the best companies, which have generated increasing profits even through the downturn, are also those that successfully manage the tension between creative freedom and operational control.

It sounds simple enough, but in a world of ample ego and capricious sentiment, it is a maddeningly difficult balance to get right. That the industry tends over time to swing too far in favour of the ponytails, only to swerve back too far in favour of the suits, shows how hard it is to find a middle way. Devising a habitat in which creativity can flourish, yet within tight operational constraints: there lies a sequel for the entertainment industry worthy of a Hollywood blockbuster.

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Nuclear proliferation

Holding the line

Jan 16th 2003
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Don't blame the whistleblowers; it is the nuclear cheats who are dangerous

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ACTIONS speak louder than promises. North Korea has thrown out inspectors and pulled out of the Nuclear Non-Proliferation Treaty (NPT). Iraq has let inspectors back in but not yet handed over the illicit chemical and biological weapons it is thought to possess, nor come clean about its nuclear ambitions. Suddenly the edifice of treaties and agreements that for decades has helped block the spread of weapons of mass destruction, especially nuclear ones, looks in danger of collapse. The NPT has been signed by nearly everyone: in the 1990s South Africa, Argentina and Brazil abandoned nuclear programmes to join; only India, Pakistan and Israel have stayed resolutely outside. And yet from the right in Japan to the left in Brazil, politicians are wondering aloud whether having the bomb might, after all, be better than banning it.

How come? Recent weeks have seen a tendency to blame the whistleblowers instead of the cheats. Some fault the five official nuclear powers—America, Britain, France, China and Russia—for hanging on to their bombs, despite commitments to work towards eventual nuclear disarmament. Yet plenty of work has been done: nuclear stockpiles have shrunk dramatically since the cold war ended. Some blame the Bush administration's “aggressive” refusal to rule out a nuclear response if attacked by any weapon of mass destruction. They deliberately overlook America's intent (quietly shared by others): to deter all use of such weapons. Others condemn Mr Bush's “axis of evil” rhetoric, claiming that this will merely spur Iran, Iraq, North Korea and others to build their bombs before America can strike them. That is far from proven: North Korea, to name just one, started its uranium-enrichment programme during the Clinton administration, before Mr Bush's speech. And his emphasis on anti-proliferation has plainly raised the risks and costs facing countries pursuing nuclear weapons.

The real danger to the NPT arises from the temptation to let off the rule-breakers. To good-faith joiners, the treaty is a valuable security tool. They can use it to show the neighbours that they are not seeking the bomb, while being reassured that the neighbours aren't either. But they cannot be reassured if inspectors are fooled or the world turns a blind eye to cheats.

After the Gulf war of 1991, inspectors discovered that, despite signing the NPT, Iraq was close to having a bomb without their knowing. That is why tighter international rules were drawn up, and why the Security Council ordered Iraq to give up all its nuclear, chemical and biological weapons. But the council failed to back up the inspectors, and Iraq wriggled out of their clutches. America has prodded the council to try again. If it fails to complete the disarmament process a second time, treaty-abusers everywhere will celebrate.

America should be praised, not pilloried, for taking the lead in shoring up the anti-proliferation edifice

North Korea has long abused its non-proliferation promises too. Ten years ago, when it first threatened to leave the NPT, after inspectors had caught it illicitly making plutonium, South Korea, Japan and China backed off, leaving America to scramble together a “freeze” that left all other nuclear activities in North Korea dangerously unmonitored. This time, since North Korea has admitted enriching uranium too, the neighbours are pulling together better to lever North Korea out of the nuclear business. But any deal will need proper checks on all North Korea's nuclear activities, if these are not to spark a destabilising nuclear arms-race in north-east Asia.

Not a job for America alone

And not only there. Although India and Pakistan were not members of the NPT when they blasted their way across the nuclear threshold five years ago, they still expected to face sanctions for breaking the testing taboo. Yet few governments bothered to apply any that hurt. So countries like Brazil, keen to strut their stuff on the world stage as India does, and having watched other proliferators get away with it, now wonder if going nuclear earns respect. Meanwhile Pakistan was emboldened to sell on its uranium technology to North Korea.

America should be praised, not pilloried, for taking the lead in shoring up the anti-proliferation edifice. It could do still more, by adopting the test-ban treaty that Mr Bush still observes though, illogically, refuses to send for ratification; and through deeper weapons cuts. Yet proliferation, like the fight against terror, is a global problem that demands a global response. This should include greater efforts to safeguard potential weapons materials; plugging leaky export controls, above all in Russia and China; getting all NPT members to submit to tightened nuclear inspection rules; denying aid, trade and debt relief to countries that divert their own cash to build illicit weapons. If the global anti-proliferation effort seems suddenly in crisis, it is not just because America has directed the spotlight on the cheats and how they operate. The fate of the NPT will hang on what is now done about them.

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Dealing with despots

In praise of exile

Jan 16th 2003
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A second-best solution for the likes of Robert Mugabe and Saddam Hussein

EPA

A SECURE island, tropical perhaps but not desert, where discarded despots could pass their declining years in comfort and safety has long seemed an attractive proposition to *The Economist*. It is not just the thought that each other's company might provide a punishment of kinds to those, say, who now tyrannise Cuba, Iraq, North Korea and Zimbabwe. It is also the belief that at least some of those rulers would slink off if they were guaranteed immunity from prosecution, plus a lifetime supply of gin and tonic, and that most of their oppressed countrymen would be ready to let them escape justice merely to be rid of them. Visions of Despotamia—yes, the island could perhaps be a landlocked one, somewhere between the Tigris and the Euphrates—returned this week with the reports that a deal had been proffered in Zimbabwe whereby Robert Mugabe would make way for a transitional government in which his party would share power with the opposition until an election could be held. Was Mr Mugabe thus booking his exit ticket?

Apparently not. The reports were quickly denied. Still, the vision of the island did not die. A “voluntary” departure for Saddam Hussein has already been mooted by some Arabs who want to avert a war in Iraq. And the memory is fresh of how bribery worked wonders in helping to rid Afghanistan of the Taliban in 2001. Surely the principle could be extended?

One practical objection concerns the difficulty of winning the consent of the people. How could you ask Zimbabweans if they agreed to the bargain? A referendum would be ideal, but Mr Mugabe and his ruling party have already shown themselves willing to rig one election (last year) in order to hang on to power. They would hardly balk at rigging another to produce whatever result they wanted.

Fortunately, Zimbabwe has a party, the Movement for Democratic Change, that can reasonably claim to speak for the voters, having been robbed of victory in last year's election. So the practical objection, at least there, seems manageable. But objections of principle might still argue against accepting such a deal. It goes against the grain to think of Mr Mugabe, who has brought his country to its knees (see article), getting off scot-free. Moreover, the modern trend is to frown on letting villainy go unpunished. Augusto Pinochet, the beneficiary of a stand-aside-in-return-for-impunity deal in Chile, later found himself under arrest on a humdrum trip to London. Slobodan Milosevic is even now on trial for crimes in Yugoslavia. Other tyrants may yet fall foul of the International Criminal Court, due to start work later this year. Still, a cheap and bloodless solution for such men has its merits, especially if the alternative is as terrible as war. It would be a wonderful outcome in Iraq, so long as the country was thereby disarmed and the people allowed to choose a more benign regime.

In any event, Zimbabwe seems unlikely to be shot of Mr Mugabe at all soon. His departure is certainly not being hastened by his neighbours, who seem untroubled by his violent misrule, nor by England's cricketers, who this week refused to call off their World Cup fixture in Zimbabwe next month. Time is not on his side—he is 78 years old—nor is the fact, whatever the denials, that his lieutenants are openly plotting without fear of retribution. His days are numbered. But he can still do a lot of harm to his country. A pity, when you think how he might instead be explaining the rules of cricket to Mr Hussein, as they watched the matches on television in Despotamia.

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About sponsorship

France, Germany and the reinvention of Europe

Fudge rarely works

Jan 16th 2003
From The Economist print edition

The latest compromise presented by France and Germany is a recipe for confusion

IT IS apposite that the latest attempt by France and Germany to reinvent Europe should be celebrated in the wondrous hall of mirrors in the ill-fated palace of Versailles. The spectacle of the entire membership of both Germany's and France's lower houses of parliament due to gather there next week in an atmosphere of amity should stir the hearts of everyone who desires peace and prosperity in the world. But the notion, heralded in Paris and Berlin this week, that the two nations have agreed upon a common vision of Europe's future is as illusory as the images of grandeur reflected in that glorious glassy enfilade over the centuries past. The latest Franco-German plan to reform the European Union smacks of the sort of compromise that creates more mirage than clarity (see article).

For sure, goodwill between the two ancient rivals must be applauded. The foundation of peace in western Europe that has been unshaken for more than a half a century—a peerless record—was hewn by far-sighted and big-hearted Frenchmen and Germans, albeit with help from generous Americans and others, and has been fortified by the emergence of the EU alongside the protective carapace of NATO. But those whose vision of peace generated a desire for ever closer union between Europe's nations have become victims of their own success. A club soon to number 25 countries, with new ones from central Europe, can no longer be driven just by a Franco-German motor. As Europe has changed shape since communism fizzled, new differences have emerged. France, in the end, is still a country that believes in having its own foreign policy (witness its divergence with Germany over Iraq) and in a Europe of nations. Germany tends to believe in a nation of Europe—and in ever closer union.

This dichotomy was highlighted by the muddled suggestion, put forward this week in the two countries' joint name, that the European Commission, which ought really to be a civil service, albeit one with powers to initiate legislative ideas, should have a president elected by Europe's parliament, to give it more legitimacy and clout. To compound the muddle, it was also suggested, as the other half of the bargain, that the European Council, where the ministers of elected governments of all the member-countries meet, should have an elected president, to assert a collective authority for Europe's nations. Having two elected presidents would certainly balance powers, but it is surely a recipe for conflict, stalemate or just confusion. It also threatens to replicate the current ambiguity over who runs Europe's foreign policy, insofar as it has one: an external-affairs boss within the commission (currently Chris Patten) or a “high representative” designated by the EU's component governments (Javier Solana).

This latest compromise may carry weight at the convention in Brussels where a constitutional blueprint is in draft. The French and Germans would like, in Versailles, to herald its progress. Its laudable aim is to enhance clarity, democracy and efficiency within the EU, especially as it expands to take in new members. Plainly a battle is still in swing between those, led by the Germans, who want tighter integration, in economic (including tax) matters and in foreign policy too, and those, led by Britain, with Spain alongside, who want looser arrangements. France, on the face of things, has bowed this week to German wishes to bolster the commission as a motor of integration. Yet the nation-staters, who must still count France among their number, are well in contention. A bigger voice for the European Council helps their cause. By contrast, the latest awkward compromise would, in essence, produce a two-headed beast. Europe is already, necessarily, a hybrid. But even a hybrid needs to know who is in charge.

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Child pornography

Just looking?

Jan 16th 2003
From The Economist print edition

Britain's child pornography laws are too harsh

Get article background

ON TUESDAY this week, most British newspapers splashed across their front pages the arrest of Pete Townshend, a rock star, on suspicion of making and possessing images of child pornography. Gerry Mepham, a maths teacher from Portsmouth who was arrested in the same police operation (see article), got less attention, although the light aircraft he was flying later disappeared over the Channel.

It is not surprising that people kill themselves rather than face charges, or even suspicion, of viewing child pornography. No crime, not even murder, is so vilified in the western world as paedophilia. Being accused, even wrongly, of anything to do with child abuse can ruin people's lives.

British law defines child pornography as “indecent” photographs of children. That can include those of naked, but unmolested, children, depending on the context—if the photos are cut down to emphasise the genitals, for instance, or posted on a website. The law has been tightened in recent years. The 1978 Protection of Children Act targeted those “making” images, meaning photographers, but “making” is now interpreted to include downloading. In 1994, the law was revised to include computer-generated images as well as real photographs. And the maximum sentence for possessing an image was recently increased from six months to five years. So now, if you click on a link to a child pornography site and save an image of a naked child, you could go to jail for five years.

There are two arguments for such harsh penalties for those who look at child pornography: first, that looking leads to doing, and second, that paying for photographs of children being abused creates an incentive to commit such crimes. Proponents of the argument that looking leads to doing say that, in America, 36% of those who watch child pornography are also child molesters. Whether or not that widely-disputed figure is true, it does not prove that watching pornography causes abuse. What about the other 64%? Maybe, for them, looking is a substitute for doing. Interestingly, at the same time as child pornography has become more widely available, so child abuse has declined. According to the Crimes Against Children Research Centre, a research group funded by America's Department of Justice, between 1992 and 2000 the number of substantiated cases of sexual abuse of children in the United States dropped by more than a third. In Britain, child abuse declined by 7% between 1991 and 2001.

The argument that voyeurs are necessarily part of a chain of crime is a stronger one, though technology has weakened it. Some of the images that people are buying are computer-generated, so that making them has harmed nobody. That's why America's Supreme Court last year ruled the country's child-pornography legislation unconstitutional. American law-makers are now working on a new law.

When principles weaken

British law should similarly draw a line between real and fake pornography. It should make a distinction between photographs which depict child abuse and those of simple nakedness. And it should distinguish between the curious (who may be revolted by what they have seen) and those who've been at it for years. As the law stands, downloading one image is as much an offence as downloading 10,000. That still, though, leaves the hardest case: the long-term user who pays for pictures of real abuse, but sits

there just looking.

Even this die-hard liberal paper regards him as a rare justification for compromising the principle of freedom of expression. The problem is that he isn't just looking. Just as those who buy stolen goods encourage thieves, so those who buy child pornography encourage child rapists. The strongest of principles weaken in the face of such crimes.

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Letters

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From The Economist print edition

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Marxist thought

SIR – I find your conclusion on class war odd ("Marx after communism", December 21st). You cite democratic elections, government regulation of corporations and share ownership as evidence that the proletariat is firmly in control. I do not know about other western democracies but in America we have a president purchased by corporations in a sham election who has put those corporations in charge of their own regulation. A string of corporate scandals has exposed the myth of shareholder control.

Class war may be over but the proletariat did not win.

Mark Spohr
Tahoe City, California

SIR –"From each according to his ability; to each according to his need" is the Marxist idea that has stuck with me. Christ might have said this when he performed the miracle of the loaves and fishes. As the daughter of a factory worker, I benefited from academic scholarships that the development of Sputnik prompted. It was the Soviet threat that motivated investment in education and human capital. Capitalism thrives on competition and the Soviet Union provided this for many years.

The bubble economy of the 1990s and the rampant greed that accompanied it, testifies to capitalism's need for a moral compass. As half of Americans attend religious services, perhaps a Marxist message from the pulpit could push us into a more socially conscious form of capitalism.

Monica McHenney
Palo Alto, California

SIR – So Jonathan Wolff and Eric Hobsbawm argue that "Marx was misunderstood and that the great man was right about far more than he is given credit for." Hmm. I am reminded of those who are now arguing that Islam teaches tolerance and that *jihad* means internal struggle.

George Jochnowitz
Staten Island, New York

SIR – In the past you have praised whistleblowers. Why are you opposed to the foremost whistleblower on capitalism?

Manfred Sohn
Edemissen, Germany

Barbie loses her chains

SIR – Cryptography having failed him, Carl Adler (Letters January 11th) calls for an elucidation of the subliminal message behind your pairing of articles on Marx and Barbie. As you quote, Marx's communist Arcadia would make "it possible for me to do one thing today and another tomorrow, to hunt in the morning, fish in the afternoon, rear cattle in the evening, criticise after dinner...without ever becoming hunter, herdsman or critic."

No one has set into practice Marx's ultimate fancies more fully than Barbie herself: she fashions herself as astronaut, aerobics instructor, engineer, doctor, diplomat, etc, and even Rapunzel, without becoming either. I shiver at the thought of the evil influence this deceiving doll is having on my daughters' minds. Forget subliminal messages, we are talking about a fully fledged conspiracy.

Yishai Jusidman
Paris

Better in than out

SIR – Poor old Charlemagne (January 4th) sounds increasingly like a blinkered British Europhobe. He laments that the European Union's foreign policy is "both muddled and divisive", even as it prepares to bolster the continent's prosperity and security by reuniting what the cold war sundered. He despairs at Europe's "stagnating economy", contrasting it with America's relative success since 1995. Yet GDP per person in the EU has risen by 2.3% a year on average since 1995, compared with only 2.0% in America.

Finally, he damns the euro because the euro zone grew more slowly in 2002 than the EU countries that have yet to join the single currency. However, ranked by GDP growth in the year to the third quarter, Sweden came fifth out of 15 EU members, Britain seventh and Denmark tenth. More important, since the euro's launch in 1999, GDP per person has risen faster in the euro zone than in Britain.

Philippe Legrain
Chief economist
Britain in Europe
London

The English empire

SIR – In Calcutta, Bengali has some distinctive English usages ("The English invasion", December 21st). Buses never halt at a stop, only at a *stoppage*. People do not go on holiday but on a *change* and they do not return, they *back*. Calcutta's antiquated trams never derail but are often *outlined*.

Supriya Guha
Basel, Switzerland

SIR – The English invasion of Russian is a conquest. Old hat in sport (*futbol*, *khokkei*), it is ascendant in computerese (*display*, *virtualniy*, *interaktivniy*) and *bizness* (*menedzhment*, *konsulting*). More recent is its arrival on stage as the *myuzikl*, in job *rekruting* advertisements (*vacantsiya*) and on a banner announcing a *blakbaster* car sale.

Alfred Friendly
Washington, DC

SIR – In Polish the word *adidas* denotes any trainer regardless of its brand.

Piotr Zientara
Gdynia, Poland

Bond by the book

SIR – James Bond did not wait for "Die Another Day", his latest film, to show interest in illegal-diamond trafficking ("A crook's best friend", January 4th). "Diamonds Are Forever", published in 1956, opened and closed on the borders of Liberia, Sierra Leone and Guinea, where hot stones were being smuggled by dastardly criminals—American to boot. Maniacal Oriental terrorists are undoubtedly more contemporary but perhaps the screenwriters of the 007 movies actually have read the novels.

Philippe Chatenay
Paris

Sleeping on it

SIR – Your article on sleep fails to mention beds ("And so to bed", December 21st). Bed-design characteristics, such as body conformity, body-heat transfer and vapour permeability are bound to influence the quality of sleep. There appears to be a big difference in the approach of European and North American bed designers. Europeans apply critical attention to the support of the mattress; American design ignores it. I am yet to have a good night's sleep even in the most expensive North American hotel. Inadequate beds might also help to explain a "sleep-sick society".

Tomo Bonac
Vancouver

Cowboy country

SIR – At first glance I assumed that the après-ski boots worn by the champagne cork-riding cowboy on the cover of your Christmas issue ("December 21st) reflected nothing more than English ignorance. After reading "Texas, the future of America" and reflecting on your penchant for satire, I realise that it is perfect. Few of the cowboys in Texas are any more real than your cork rider.

Stephen Siebert
Missoula, Montana

SIR – You unfairly depict George Bush as an "enthusiastic, if imperfect, speaker of Spanish". He is, after all, an enthusiastic, if imperfect, speaker of English.

Thomas Carney
Vernon Hills, Illinois

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Abortion in America

The war that never ends

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From The Economist print edition

The United States did not deal with abortion as Europe did. As a result, the issue divides the country as bitterly as ever

Get article background

ANNIVERSARIES don't get much more controversial than this. On January 22nd, America will mark the thirtieth anniversary of the Supreme Court decision that declared abortion a constitutional right. Anti-abortionists will march in Washington in their thousands, carrying gruesome photographs. Supporters of abortion rights will retort that *Roe v Wade*, the decision in question, was one of the great milestones in the long march for women's rights—a heroic decision that has saved thousands of women from death by coat-hanger or back-street butchery. The two sides will end the day even more polarised than ever.

Since 1973, about 75 countries have liberalised their abortion laws (the most recent being Switzerland and Nepal last year). In most countries, that was enough to settle the debate. Not in America.

The Supreme Court's ruling immediately created a furious backlash. State legislatures passed laws restricting the rights of minors to obtain abortions, usually by requiring the consent of one or both parents. In 1976 Henry Hyde, an Illinois congressman, sponsored legislation eliminating Medicaid funding for abortions except in extreme cases (such as rape, incest or where a woman's life was endangered by her pregnancy). Some extremists took to blowing up clinics and shooting abortion doctors (who, in turn, took to coming to work wearing bullet-proof vests).

The battle over abortion reaches the obscurest sides of life

There are no signs that the debate is quietening down. One of George Bush's first actions on coming to office was to reinstate a rule barring overseas recipients of American development funds from using their own money to advocate or provide abortions. The day after the 2002 mid-term elections, Trent Lott, then poised to resume the leadership of the Senate, promised to ban partial-birth abortion, a late-term and particularly grisly procedure. The battle over abortion reaches the obscurest sides of life. The Centre for Reproductive Law and Policy has filed lawsuits against the states of Florida and Louisiana for allowing the sale of “choose life” licence-plates but not “pro-choice” ones.

Why does abortion remain so much more controversial in America than in the other countries that have legalised it? The fundamental reason is the way the Americans went about legalisation. European countries did so through legislation and, occasionally, referenda. This allowed abortion opponents to vent their objections and legislators to adjust the rules to local tastes. Above all, it gave legalisation the legitimacy of majority support.

Most European countries provide abortion free. But they have also hedged the practice with all sorts of qualifications. They justify abortion on the basis of health rather than rights. Many European countries impose a 12-week limit (America, by contrast, allows abortion up to about 24 weeks and beyond, and many abortion-rights advocates seem to oppose any restrictions.) Frances Kissling, head of Catholics for a Free Choice, also points out that the Europeans have been careful to preserve a patina of disapproval. Even in England, the country with the most liberal abortion laws in Europe, women have to get permission from two doctors.

America went down the alternative route of declaring abortion a constitutional right. (The only other country that has done anything comparable is South Africa.) A seven-to-two majority of justices struck down state abortion laws on the grounds that reproductive rights are included in a fundamental right to privacy which—rather like freedom of speech and freedom of religion—is guaranteed by the constitution.

It would be hard to design a way of legalising abortion that could be better calculated to stir up controversy. Abortion opponents were furious about being denied their say. Abortion supporters had to rely on the precarious balance of power on the Supreme Court. Legalisation did not have the legitimacy of majority support. Instead, it rested on a highly controversial interpretation of the constitution (abortion rights are clearly not enshrined in the constitution in the same plain way that free speech is). By going down the legislative road, the Europeans managed to neutralise the debate; by relying on the hammer-blow of a Supreme Court decision, the Americans institutionalised it.

It would be hard to design a way of legalising abortion that could be better calculated to stir up controversy

A second reason is the continued importance of religion in American life. The Pew Global Attitudes Project recently revealed that six in ten (59%) of Americans say that religion plays a “very important” role in their lives. This is roughly twice the percentage of self-avowed religious people in Canada (30%) and an even higher proportion when compared with Japan and Europe. To find comparable numbers, you need to look at developing countries.

When Americans say “very important”, they mean it. America, in Robert Fogel's phrase, is in the middle of a “fourth great awakening” to religion. Churches that insist on passionate commitment to Christ are growing at the expense of more moderate congregations. Religious organisations also provide many of the social services that the state provides in Europe.

One result of America's religiosity is its relative conservatism about sex. Thirteen states still have anti-sodomy laws. The Bush administration favours sex education based on abstinence. Many of the noisiest opponents of abortion also oppose easy access to contraception. Puritanical America has higher rates of both abortion and unwanted pregnancy than many European countries with more liberal attitudes to sex education.

One result of America's religiosity is its relative conservatism about sex

The third reason why abortion is so controversial is the American fondness for arguing about fundamentals. Europeans routinely turn moral issues into technical ones—and then hand them over to technocratic elites. America is a country of fundamentalists, thanks to its constitutional tradition, its legal culture and perhaps its Puritan heritage. For Americans, abortion can never be just about health. It has to be a clash of absolutes: the right to choose versus the right to life. Add to that the openness of the American political system, which makes it impossible to hand controversial questions over to technocratic elites, and you have the making of an endless argument about fundamentals.

The party divide

Roe v Wade did as much as anything to make American politics what it is today. Up until the 1960s, politics was defined by a combination of economic class and the legacy of the civil war. The Republicans, like Europe's conservative parties, were rooted in the business and professional elites; the Democrats were rooted in the trade unions, the urban political machines and ethnic minorities, mostly Irish and Italian. White southerners of all classes also voted Democratic (a legacy of Republican opposition to slavery). Those most opposed to abortion—Catholics and southerners—were almost all Democrats.

But from the mid-1960s onwards values started to trump class. Abortion was not the first issue that redefined politics: that honour goes to civil rights. But it was certainly one of the most powerful. *Roe* helped to drive millions of northern Catholics and southern evangelicals into the Republican Party. (Republicans dubbed George McGovern the triple-A candidate: amnesty, acid and abortion.) It also

persuaded Catholics and evangelicals to put aside their long-standing enmity in order to form a common front. The term “moral majority” was first used by Paul Weyrich, an arch-traditional Catholic, in a presentation to Jerry Falwell, a leading evangelical.

American politics is now deeply coloured by both religion and abortion. Regularity of church attendance is a much more reliable predictor of voting intentions than income. Anti-abortion groups such as the Family Research Council (FRC) and Focus on the Family are among the most powerful components of the Republican coalition. The Democratic Party is so intertwined with NARAL Pro-Choice America, the rebranded National Abortion Rights Action League, that all the party's prospective presidential candidates have been invited to dine at its headquarters on January 21st to celebrate the anniversary.

Regularity of church attendance is a much more reliable predictor of voting intentions than income

There are still pro-choice Republicans (like Colin Powell) and anti-abortion Democrats. But they are swimming against the tide. Some 84% of state Democratic platforms support abortion (the rest have no position), while 88% of state Republican platforms oppose it (none support it). The Republican Party threw away its chance of wresting the governorship of California from the hugely unpopular Gray Davis when it chose an anti-abortion candidate, Bill Simon, over Richard Riordan, the popular former mayor of Los Angeles.

The abortion debate is also responsible for one of the most obvious confusions in the political debate. Republicans usually oppose government regulation in the name of free choice. Grover Norquist, the head of Americans for Tax Reform, even goes so far as to call the Republicans the “leave-us-alone coalition”. But on the most sensitive subject of all—reproductive rights—conservatives are now on the side of government control. The Democrats are no more coherent: a party that will do anything to protect a woman's right to choose an abortion will not support her right to choose a public school for her child.

Roe has left the American legal system hopelessly politicised. The Democrats destroyed Robert Bork's chances of sitting on the Supreme Court in part because of his presumed views on abortion. Abortion politics are even poisoning the appointment of lower-level judges (despite the fact that they have almost no discretion over abortion), creating ever more vacancies on the bench and denying many eminent lawyers the promotion they deserve. The Senate confirmed 95% of Ronald Reagan's circuit-court nominees in his first two years, and 86% of Bill Clinton's; so far, it has confirmed 53% of Mr Bush's.

The abortion debate has more practical implications, too. The number of doctors willing to practise this branch of medicine is declining, in part because of fear of violence. It took years for RU486, the “abortion pill” that is common in Europe, to make it to the United States. Mr Bush, sensitive to pressure from the Christian right, severely restricted embryonic stem-cell research in the United States, a decision that some scientists think could cost America its lead in a vital area of research.

Abortion politics have also had a marked influence on foreign policy. Since the 1970s, America has introduced strict rules governing the distribution of family-planning assistance to developing countries. In 1973 Jesse Helms, an intractable former senator from North Carolina, introduced an amendment to the Foreign Assistance Act prohibiting the use of federal money to support abortions overseas. In 1984 the Reagan administration imposed the “Mexico City Policy” prohibiting overseas NGOs from receiving American funds if they performed or promoted abortions, even if they did so with their own money. (This has since become the subject of much symbolism: one of the first things Mr Clinton did on coming to office was to abolish this rule, and one of the first things Mr Bush did was to reimpose it.) In December last year the head of the American delegation caused a stir at a United Nations conference in Bangkok when he declared that America “supports the sanctity of life from conception to natural death”.

Abortion politics have had a marked influence on foreign policy

A future of stalemate

Where is abortion politics going? The abortion-rights camp believes that their position is as perilous as it has been for 30 years. This is the first time since 1973 that the president, the leader of the Senate and the leader of the House have all been opposed to abortion.

Many anti-abortionists are also quietly convinced that they are winning the battle for people's minds. They have highlighted rare practices like “partial-birth abortion” that most people find repugnant: the name in itself is a propaganda coup. They are busy building what they call a “coalition of the vulnerable”, arguing that, if people are prepared to dispose of inconvenient fetuses, they will start disposing of inconvenient old people, sick people and poor people. According to a Gallup poll, the proportion of the public who believe that abortion should be legal in all cases has gone down from 34% in 1992 to 24%.

Anti-abortionists have also relentlessly whittled away at abortion rights. Every year new legislation restricting abortion is introduced in statehouses across the country. A long queue of anti-abortion bills is awaiting consideration in Congress. The Child Custody Protection Act makes it a crime for anybody other than the parent to transport a minor across state lines in order to have an abortion. The Unborn Victims of Violence Act (which is similar to bills introduced in many states) creates a new offence: killing or injuring a fetus during the commission of a federal crime. The Bush administration has made fetuses eligible for the State Children's Health Insurance Programme, and directed the Advisory Commission on Human Research Protection to consider embryos as “human research subjects” on a par with children.

Abortion foes are convinced that science is on their side

Abortion foes are also convinced that science is on their side. Medical advances are making it possible for younger and younger fetuses to survive outside their mothers' bodies. Modern sonograms are so powerful that they can delineate tiny fingers and toes. Parents-to-be take photographs of their future offspring and keep them along with their other baby pictures. Ken Connor, the head of the FRC, says that three-dimensional ultrasounds are “windows on the womb” that undo the logic of *Roe v Wade*. “People recognise immediately that an unborn child is a child.”

There are several problems with this argument. The biggest is that most Americans want to preserve abortion rights. They don't celebrate abortion. They recoil at partial-birth abortion. But they want no return to the back streets. Their attitude was perfectly captured by Mr Clinton when he said that he wanted abortion to remain “safe, legal and rare”. Support for the status quo is strongly reinforced by the fact that *Roe v Wade* is now 30 years old. Most women of child-bearing age have grown up with *Roe* as the law of the land.

Scientific advances also cut both ways. The morning-after pill can be used to induce abortion almost immediately after conception. Stem cells offer the potential of curing Parkinson's disease. The anti-abortion movement's insistence that a tiny clump of cells constitutes life just as much as a 24-week-old fetus makes it look both extreme and uncaring. Several leading Republicans, including Utah's Orrin Hatch, have broken with the anti-abortion movement over embryonic stem-cell research.

Abortion is now better regulated than ever before. Many of the restrictions on abortion rights imposed by anti-abortionists have had the paradoxical effect of making the practice more acceptable. More than half of all abortions are now performed in the first eight weeks of pregnancy, up from under 40% in 1973, and 89% in the first 12 weeks. A report just released by the Alan Guttmacher Institute also shows abortions at an all-time low of 21.3 per 1,000 women aged 15-44, compared with the 1980-81 peak of 29.3.

Lastly, Republican presidents are terrified of pushing the abortion issue too far. They are happy to throw a few bones to the religious right (which is why development aid is such a convenient target). But they realise that challenging the central principle of *Roe* would doom them with moderate voters—particularly women. In his confirmation hearings, John Ashcroft, the attorney-general, was following White House instructions when he described *Roe* as “the settled law of the land”. “The Supreme Court's decisions on this have been multiple, they have been recent, and they have been emphatic,” he said.

Emphatic indeed. The court reaffirmed *Roe*'s central principle—that states cannot ban abortions—as recently as 1992, by a five-to-four majority, in the case of *Planned Parenthood v Casey*. In doing so, it cited the need for stability in the law. In 2000, the same majority struck down Nebraska's ban on partial-birth abortion. And even if the court should revisit the case, there is little chance that it will reverse itself and make abortion illegal. The most that anti-abortion justices such as Antonin Scalia argue for is taking the decision away from the Supreme Court and handing it back to the legislatures. The betting is that almost all legislatures would uphold the right to abortion.

Is there any chance that the opposite will happen—and that abortion will become as uncontroversial in the United States as it is in Europe? Not really. The last 30 years of abortion politics have seen the creation of two pressure groups with a vested interest in keeping the debate as fierce as possible. Ken Connor of the FRC is thoroughly connected to the Republican establishment. And the best way for Kate Michelman, the head of NARAL Pro-Choice America, to shake the liberal money trees is to insist that *Roe* is on the verge of being overturned. There is no chance of America becoming "European" in its attitude to abortion.

There is also no truth in the predictions that abortion is about to be banned. The practice has become too much of a safety-net for middle-class women to be marginalised, let alone removed. Debates will flicker on the margins as opponents of abortion grapple with the potential of stem-cell research to cure terrible diseases, and as supporters grapple with the full horror of what it means to abort a fetus at 28 weeks. But, for the most part, the prospect is stalemate.

There is no truth in the predictions that abortion is about to be banned

Roe v Wade may have liberated many women; yet it has also trapped America in an irresolvable clash of absolutes. The one safe prediction is that the issue will continue to shape the war between left and right for years to come—and that the fortieth anniversary of *Roe v Wade* will be just as acrimonious as the thirtieth.

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Foreign policy

Emperor, shedding clothes?

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EPA

America's policy towards Iraq seems confused and towards North Korea erratic. Is the Bush administration's diplomacy doomed?

IT WAS bound to happen. George Bush's post-September 11th foreign policy, apparently so robust, was always going to be assailed by doubts, fears and details. All are growing.

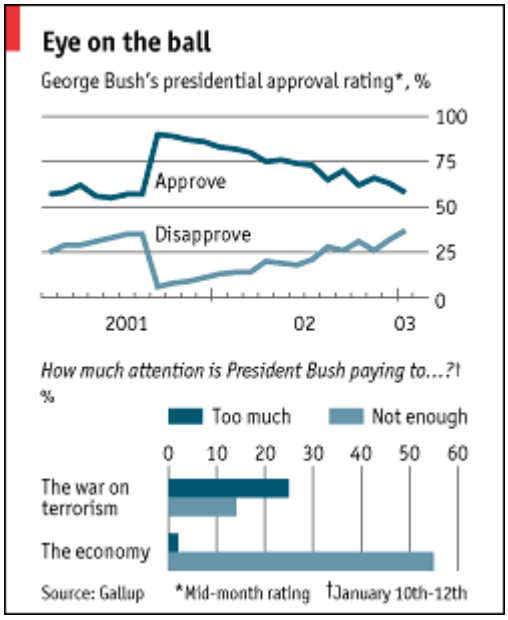
With ten days to go before United Nations weapons inspectors present their first formal report on Iraq, preparations for war are not going smoothly. Some of America's allies say there is no smoking gun, and no *casus belli*. At the same time, North Korea's withdrawal from the nuclear Non-Proliferation Treaty (NPT)—and America's apparent inability to do anything about it—has put in doubt Mr Bush's seriousness in dealing with nuclear proliferation and rogue states, while continued American troop deployments in the Gulf raise questions about his priorities.

Perhaps most important of all, doubts about war with Iraq seem to be growing at home. Mr Bush's popularity has fallen below 60%, high by normal standards but the lowest since September 11th (see chart). One poll found only a quarter of Americans support war without allies in Iraq. And the anti-war movement, though still much smaller than in Europe, seems to be growing. Is the policy coming unstuck?

Start with Iraq. It now seems unlikely that all the members of the UN Security Council will declare Mr Hussein in "material breach" of his obligations on the basis of the weapons-inspections report due on January 27th. The chief inspector, Hans Blix, and the head of the International Atomic Energy Agency, Mohamed El Baradei, say there are holes in Iraq's accounting of its weapons programmes. But they have found no smoking gun and want more time to look for one. Mr Blix expects his team to be working in Iraq for months.

America's allies want to give them time. Britain's ambassador to the UN, Sir Jeremy Greenstock, says: "My advice is to calm down on January 27th. This is a series of reports to the council, and the inspectors need more time to do their business." Two other permanent members of the Security Council went a little further, reasserting their opposition to military action at the moment. France's president, Jacques Chirac, told the Americans, "Since you say you have proof, then put the proof on the table." On January 15th Russia dispatched its deputy foreign minister to Iraq for negotiations on disarmament—an echo of Mikhail Gorbachev's

diplomacy in the Gulf on the eve of the 1991 Iraq war.



Of course, the Americans may produce some hard evidence about Iraq. But at the moment they are still talking about Iraqi sins of omission, rather than commission. Without a smoking gun, a quick Security-Council resolution approving the use of force after January 27th looks unlikely. This worries the hawks in the administration. Mr Hussein, they have long argued, would play for time. He would hoodwink the inspections regime. The Security Council would not support a war to remove him, while the attempt to persuade it would weaken America's position.

So it is not surprising that unresolved divisions in the administration have opened up again, this time over how long to give the inspectors. Colin Powell, the secretary of state, joined the "more time" camp, saying January 27th was "not necessarily a D-day for decision-making." But another official insisted January 27th was a critical moment, when a "material breach" might be declared, and the president seemed to back this harder line. "Time is running out" for Mr Hussein, he said. "I am sick and tired of games and deceptions, and that is my view on timetables." In short, on Iraq, the administration seems to be divided.

Yet the bigger challenge to its credibility comes from North Korea (see article). After September 11th, Mr Bush outlined a policy to deal with what might be called the three Ts: terrorism, tyrants and technology (of weapons of mass destruction). To prosecute war against terrorism properly, the doctrine said, one also had to deal with states—by regime change and pre-emptive strike if necessary. As last year's National Security Strategy said, "We must be prepared to stop rogue states and their terrorist clients before they are able to threaten or use weapons of mass destruction."

Two tyrants, one policy

So how is it possible, asks Ivo Daalder, a former member of the Clinton administration, to reconcile American policy towards North Korea—no negotiations, no military action—with the Bush doctrine? The administration's answer had been: because North Korea has nuclear weapons and that shows that we must go after Mr Hussein before he gets them too. But this week the White House came up with a different (albeit related) argument. Diplomacy has failed in Iraq so we must be prepared to use force. But in North Korea there is still a chance it might work, despite the country's withdrawal from the NPT, its ejection of UN inspectors and its scrapping of the 1994 "agreed framework".

After saying for weeks that America would not negotiate with North Korea because to do so would mean giving in to blackmail, on January 14th Mr Bush said he would consider food aid and energy shipments—even diplomatic relations and security arrangements—if Kim Jong Il scrapped his nuclear weapons programme first. This followed a weekend of talks using Bill Richardson, the governor of New Mexico, as an intermediary, and an offer from China to convene discussions.

How bad is this? The offer of negotiations certainly casts an unflattering light on the inconsistency of Mr Bush's North Korea policy for the past two years—sometimes proposing talks, more often issuing general criticisms. The offer also contradicts the aggressive Bush doctrine towards "the axis of evil". But as John Lewis Gaddis, a historian of the cold war, points out, contradictions in American foreign policy are hardly unknown, even in the golden era of grand strategy. Within days of the Truman doctrine of 1947, which said America would fight communism everywhere, Dean Acheson was explaining to the Senate that this did not apply to China.

The same might be said for the Bush doctrine and North Korea. As Condoleezza Rice has argued, the doctrine was never a one-size-fits-all policy. It was about ends, not means. The real question on North Korea is whether diplomatic means will end the nuclear programme. That remains to be seen. But America at least has a policy that seems workable.

And on Iraq? The White House seems to be stuck. The inspectors have not found proof of Mr Hussein's guilt, though they still might. Mr Bush says he has not made up his mind what to do next. Jack Straw, Britain's foreign secretary, recently put the chances of avoiding war at 60-40. The world may face

another six months of waiting, while inspectors inspect, American forces gather and experts opine.

But in Washington the best guess remains that America is preparing for war, even if another UN resolution is not forthcoming. Officials argue Mr Hussein does not have to be in “material breach” of UN resolutions. He is guilty until proven innocent. Only proof of innocence—a clean bill of health—can save him. And the inspectors are likely to return a verdict of “not proven”, rather than “not guilty”.

If America were to attack Iraq on that basis, it would, of course, cause consternation. But at the same time, the logic of war would take over. Even without UN backing, Britain (probably) and France (possibly) would fall in behind America.

All this is speculation. But it proves two things. First, policy towards Iraq may be becalmed, but it is not sinking. And second, the contradictions in strategy will not matter too much, as long as the result is a good one. That may well be the real Bush doctrine.

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Illinois politics

Crazy name, crazy guy, crazy job

Jan 16th 2003 | CHICAGO
From The Economist print edition

Who would want to be a governor nowadays?

AP

Rod woke up with a fiscal hangover

LISTENING to the new governor of Illinois make his inaugural speech on January 13th, it was tempting to accept his view that a state hard hit by budget deficits and political corruption is at last heading for better days. After all, Rod Blagojevich is young, telegenic and the first Democrat to lead Illinois since 1977. The son of an immigrant steelworker, he became a congressman at 40, and is now governor at 46. Yet his optimism will be sorely tested in the coming months.

Mr Blagojevich had a particularly tough start, because the headlines this week were grabbed by the outgoing governor, George Ryan, who decided to commute the life sentences of all the state's prisoners on death row (see article). But in many ways Mr Blagojevich's problems are typical of those faced by a string of new governors across the country: he has made a lot of promises, and there is not enough money to keep them.

Like many other states, Illinois faces a record budget deficit. The figure is about $5 billion—barely a seventh of California's total, but a hefty chunk in a state whose discretionary general budget is around $24 billion. Paul Green, of Roosevelt University, labels it the worst fiscal crisis since the Great Depression. The state constitution requires the governor to present a balanced budget in February for the next fiscal year, so there will be plenty of hair-pulling in Springfield.

Unfortunately, Mr Blagojevich has boxed himself in with campaign pledges. He said he would not only avoid raising income and sales taxes, but also increase spending and restore cuts in existing programmes (such as re-opening prisons). Kent Redfield, another Illinois political scientist, points out that the Democrats' long exile from the governor's mansion has built up demand among the public-service unions, who gave generously to Mr Blagojevich's campaign.

Meanwhile, the governor has also pledged to spend at least 51% of the state's general funds on education, which will increase the pressure to cut other programmes. The measures he outlined in his speech—consolidating agencies, cutting unnecessary commissions, rebuilding the failed toll authority—are only a beginning. Fees and taxes have already been raised in obvious areas such as car licences, cigarettes and alcohol.

One option—to introduce a sales tax on services—would go down badly with the lawyers who backed his campaign. The other mooted measures are woefully familiar: licensing more casinos (even Chicago's mayor, Richard Daley, has warmed to the idea); securitising the expected proceeds from a tobacco settlement; and, most predictable of all, getting more money from Washington. Even with Dennis Hastert, an Illinois Republican, as speaker of the House, the latter looks pretty hard; George Bush is keen to rein in spending, and doing favours to a Democrat is unlikely to be top of Mr Hastert's priorities.

Mr Blagojevich has made a brisker start on his other big challenge—to clean up the state's politics. On the day of his inauguration, a jury was picked in the federal racketeering and fraud trial of Scott Fawell, a former chief-of-staff to Governor Ryan, and there is talk of a looming federal indictment of Mr Ryan himself. Mr Blagojevich has fired Mr Fawell, who has been on paid leave since his indictment, and another 35 people who were moved into state jobs by Mr Ryan in recent months.

But the tentacles reach much further: the state of honest Abe Lincoln is famous for its graft. Cynthia Canary, director of the Illinois Campaign for Political Reform, thinks the real problem is public tolerance, and sometimes even pride, in the state's operators. The attitude, she says, is, “Oh, those rascals.” There are few limits to campaign contributions in the state, and political patronage is unusually concentrated in the offices of the House speaker, Senate president and their minority counterparts.

The past year, though, has tested public tolerance. So far 57 people have been indicted in the Ryan investigation, which dates back to the time when he was secretary of state and involves handing out dodgy drivers' licences to lorry drivers, some of whom killed children in accidents. Both the House speaker, Michael Madigan (father of the new state attorney-general), and the former House minority leader, Lee Daniels, are being given a hard time over allegations that they used state employees in their political campaigns.

Getting a name as a political reformer makes sense for the new governor—not least because it does not cost money. But, in the end, the budget battle is the test. He has been trying to be friendly to Republicans. But now that almost all the top state offices are controlled by Chicago Democrats, voters will know whom to blame when things go wrong. It will be a tough four years for this likeable man.

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The tax cut

The reaction

Jan 16th 2003 | WASHINGTON, DC
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Opposition to Mr Bush's new tax-cut plan is proving stronger than expected

ONLY a week after George Bush rolled out a dramatic $670 billion tax-cut plan, the odds of his proposal becoming law without substantial changes look slim. Criticism from Democratic politicians, both about the size of the tax cut and its focus on the rich, has been louder than expected. In 2001, 12 Democratic senators voted for Mr Bush's tax cut; this time no Democrat has yet publicly supported the plan (though Zell Miller, a relatively conservative one, may do so). But the nasty surprise for the White House is the number of Republicans who have cold feet about the package.

Republicans in the House of Representatives will probably support it. Overall, they are a more ideological and conservative bunch than their colleagues in the Senate and, thanks to the iron fist of their leader, Tom DeLay, more disciplined in their voting. Though rank-and-file Republican congressmen are said to be less keen on this package than they were on Mr Bush's 2001 tax cut, several top House Republicans even want to expand it. Mr DeLay claims the president's proposal is “a floor, not a ceiling”.

In the Senate, however, the mood is different. At least eight Republican senators have publicly expressed reservations about Mr Bush's package. Given the make-up of the Senate (51 Republicans, 48 Democrats and one independent who tends to vote with the Democrats), this suggests that compromise will be inevitable. To ensure that a simple majority is enough for passage, the White House is hoping to push the tax bill through as part of the budget-reconciliation process, which would keep it safe from filibusters. But in the current mood, even that will be hard.

At least eight Republican senators have publicly expressed reservations about Mr Bush's package

Bill Frist, the new Republican leader in the Senate, virtually admitted as much this week. Although he thought he could find the votes to pass Mr Bush's plan, he acknowledged that there would have to be amendments, such as increasing the amount of help for cash-strapped states and scaling back the proposed elimination of the tax on dividends. The more passionate conservative tax-cutters are loth to abandon that particular prize just yet, but even they recognise that full elimination will be difficult. “The Senate is developing into a problem child,” says Steve Moore of the Club for Growth, a Republican group that favours tax cuts.

The main reason for the Republicans' nervousness is the tax plan's cost. In 2001, when the first Bush tax cut was passed, official projections showed huge fiscal surpluses. Now those purported surpluses have shrunk dramatically, and moderate Republicans who fret about budget deficits are worried another big tax cut is unaffordable. Paul O'Neill, the recently ousted treasury secretary, has thrown cold water on the Bush plan, saying that the money going to tax cuts would be better spent shoring up Social Security.

Just how affordable these tax cuts are depends a lot on how you believe they affect the economy. Official projections—by the administration and by the independent budget-crunchers in Congress—are based on “static” analysis: they do not factor in any boost that tax cuts might give the economy, which in turn would offset the tax cuts' damage to revenues. Supply-side tax cutters prefer “dynamic scoring”, which takes these effects into account.

Intriguingly, there are signs that the official rules for number-crunching may be shifting just as the affordability debate hots up. Mr DeLay's troops in the House recently forced through a resolution calling for dynamic scoring to be used in the official congressional calculations of the cost of tax cuts. Republicans are also hopeful that a new crowd of friends of dynamic scoring is set to run important number-crunching organisations. For instance, Doug Holtz-Eakin, a fiscal expert and chief economist at Mr Bush's Council of Economic Advisers, was recently named as the new head of the independent

Congressional Budget Office.

With the political stakes so high, the pressure to produce lower forecasts of the tax cuts' costs will be huge. Whether doubtful Republicans will be convinced is another matter.

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The Everglades

Going with the flow

Jan 16th 2003 | DELRAY BEACH, FLORIDA
From The Economist print edition

The $8 billion difference between ooze and muck, and why muck is better

“WATER moving through the Everglades, no matter how slowly, produces muck. Standing water produces ooze. I do not know why this is so; I can find no one who does. The differences in the products of water moving—even at the slow rate of 20 feet per day—and water standing are marked: muck or ooze. I think it is akin to the dramatic difference between being old and being dead.”

That was Art Marshall, a hero of Florida's environmental movement, speaking to the South Florida Water Management District in 1980. Now people are finding out the difference between muck and ooze and why moving water matters. The discovery could jolt the most expensive environmental project in the world.

The jolt comes in a paper issued this week by Nick Aumen, an aquatic ecologist at the Everglades National Park, and colleagues at the South Florida ecosystem restoration working group. Mr Aumen argues that flowing water maintained, and possibly created, the landscape of the Everglades, the largest swamp in the Americas. The implication is that unless more attention is paid to restoring the current, the landscape may not recover.

The Everglades may look like a huge undifferentiated marsh. In fact, it forms a complex pattern. Much of the central part is broken up by small ridges which stand a few inches above the water. The rest is a system of shallow channels or “sloughs”.

Until the 1940s, water used to meander slowly through the Everglades in a great southerly swoosh. The ridge-and-slough system ran in the same direction as the current; the overall effect looked a little like wallpaper with a dagger pattern, all pointing down. The ridges were evenly spaced, roughly the same width, with distinct edges, topped by dense stands of sawgrass. In 1907 a survey team described “sawgrass ridges alternating with open leads of water running approximately in a south-eastern direction”. Parts of the landscape remained intact until the 1940s.

Now the ridge-and-slough pattern has all but dissolved. In places, the ridges have degenerated into blobs. Elsewhere, they remain intact and the sloughs are silting up. Either way, the difference in elevation has gone. So has the old directional pattern.

This process has been observed for a while. What is new is the link between it and the flow of water. That there is some connection was obvious from the directional nature of the dagger pattern. But, until now, no one has worked out why moving water produced the ridge-and-slough pattern. The new paper suggests several mechanisms.

As the authors point out, water flows more slowly at the edge of ridges than through sloughs, because of friction. Sediments stick to the edges, building up ridges. Next, the Everglades is peat, where flowing water contains slightly more nutrients, helping plants grow in sloughs (in contrast, stagnant water in peat bogs is low in nutrients). Slough plants, such as water lilies, decompose much faster than tough sawgrass. Slower decomposition on ridges allows peat to accumulate there, and not get washed away.

Again, the build-up of ridges depends on a current.

Lastly, the paper argues, another feature of the Everglades landscape also requires moving water: tree islands. These are blocks of peat that have floated to the surface and been colonised by copses. They are shaped like tear-drops: the tail develops when nutrients leach from the head of the island and are deposited downstream, or when litter in the stream is deposited in the lee of the island. Either way, you need a current. In parts of the Everglades, half the tree islands have gone.

Does it matter that the Everglades is becoming a uniform plain of sawgrass? Yes, for two reasons. First, because the old alternating landscape provided a varied habitat, rich in species. Tree islands were good for nesting and foraging, sloughs provided open water for fish and ducks, sawgrass ridges gave fish a chance to hide from predators and birds a place to nest. But the spreading sawgrass has covered first the shallow marshes where long-legged herons and egrets wade, then deeper, open waters where ducks and grebes swim. Wading birds hardly ever venture into sawgrass. Their number has fallen 90% in the Everglades since 1940.

Second, the paper raises an $8 billion public-policy question about the Everglades restoration plan. This plan, approved in 2000, will build vast reservoirs and store up to 15 billion gallons of water underground so that more water can be pumped into the ecosystem to undo the damage wrought in the 1940s, when the Army Corps of Engineers blocked the swamp's natural current to improve flood control and bring land into productive use.

The question is: how important is restoring the flow? When the Corps of Engineers came up with its plan—it oversees restoration too—it argued that the natural current could not be restored because the topography has changed so much (the northern bit of the Everglades is now sugar fields, and has sunk). Instead, it wants to manage the swamp back to health through sophisticated adjustment of water levels and improved water quality.

Few greens or scientists are keen to savage an $8 billion restoration plan. But, if the new paper is right, and the current is what really matters, then even that sum might not restore the Everglades.

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Global warming

Grass-roots greenery

Jan 16th 2003 | NEW YORK
From The Economist print edition

At last, some serious efforts to curb carbon emissions

IS AMERICA ready to tackle climate change? An absurd question, you might think. After all, George Bush pulled out of the UN's Kyoto Protocol on climate change a couple of years ago, to much international disapproval. He then unveiled a weak domestic climate plan in which the targets for reducing the growth in emissions of greenhouse gases (GHGs) were purely voluntary.

Yet initiatives are now under way outside the White House that may undermine Mr Bush's approach. The noisiest challenge comes from two Bush enemies: John McCain, his foe in the Republican primaries in 2000, and Joe Lieberman, who is now running for the Democratic nomination in 2004.

The two senators have sponsored a bill—the American Investments for Reduction of Emissions Act—that would impose, for the first time, a federal restriction on emissions of GHGs. Under the plan, emissions from various sectors of the economy would need to decline to their 2000 levels by 2010, and further still by 2016. Market-friendly tactics such as emissions trading would be encouraged in order to get there.

The administration is already saying it will not budge. That is a pity, for many of Mr Bush's business allies would probably support the plan's approach. In fact, many big industrial firms, including even some coal-fired utilities, are now demanding domestic regulation of carbon dioxide (CO_2) emissions. It is not that they have suddenly turned green. They are convinced CO_2 rules will come and want them to be written by a business-friendly president.

A number of big polluters, natural denizens of the Bush camp, have pledged to change their ways, voluntarily. Alcoa, the aluminium giant, vows to reduce its GHG emissions by a quarter below 1990 levels by 2010. DuPont, the world's biggest chemicals company, is aiming for a whopping two-thirds cut below 1990 levels within a decade. Even Exxon Mobil, the *bête noire* of climate crusaders, has recently softened its rhetoric and pledged $100m to Stanford University to investigate climate science.

The most aggressive compulsory moves to tackle GHGs are probably taking place at state level. A dozen states, including oil-rich Texas, have introduced measures to boost the share of renewable energy used locally. Some mid-western states are promoting techniques to help farmers store carbon underground; financiers are developing exchanges to trade it as a commodity. New Hampshire and Massachusetts have just started regulating CO_2 emissions from power plants.

The biggest bombshell of all comes from California, which recently passed a law that would regulate emissions of CO_2 from cars, starting in 2009. That measure, if it holds up in court, would flatly contradict Mr Bush's voluntarist approach. To the dismay of the car industry, the Republican governor of New York state, George Pataki, declared last week that he intended to regulate the GHGs cars produce.

These local initiatives are promising. Yet a proper federal framework and a mandatory cap on emissions would strengthen them greatly. And, since this is a world problem, local and voluntary initiatives cannot readily be globally co-ordinated or negotiated. Even the governors of New York and California cannot enter into international climate treaties: they must bow to the president. And he's not budging.

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Affirmative action

A gamble for the president

Jan 16th 2003 | WASHINGTON, DC
From The Economist print edition

A difficult choice for the White House, with big political implications

Get article background

ON JANUARY 15th George Bush waded into the most important affirmative-action case for a generation. The case, which the Supreme Court is considering in its current session, concerns three white students who have sued the University of Michigan for discrimination. The university's affirmative-action programme gives minority students 20 points out of a possible 150 just because of the colour of their skin. Mr Bush called this “fundamentally flawed”, unconstitutional and nothing less than a “quota system”.

The administration, which was due to file a brief to the court as *The Economist* went to press, has been pulled by two opposite forces over affirmative action. The president's conservative base fiercely opposes race-based preferences. Theodore Olson, the solicitor general, argued that not even diversity can justify the use of quotas. But Mr Bush's legal counsel, Alberto Gonzales, and his chief political adviser, Karl Rove, who wants to court more minority voters, pushed in the other direction.

The result is a bit of a fudge. Mr Bush said that he strongly supports diversity of all kinds in higher education. But he insisted that you can achieve diversity without resorting to quotas. California, Florida and Texas have all done this by guaranteeing admissions to the top students from high schools across the state, including low-income neighbourhoods. The administration was careful to argue that its brief applies only to the Michigan programme.

The fudge reflects what the American public feels. Voters strongly approve of giving a helping hand to minorities, but they dislike quotas. A California proposition that banned racial preferences passed by a margin of 55% to 45%.

That said, filing a brief in favour of a bunch of white students is risky for the White House. The Democrats pounced on Mr Bush's statement as a blow to civil rights. Trent Lott's loose tongue recently reminded Americans that the Republican record on race is far from pristine. And Mr Bush is hardly a poster-boy for meritocracy. Would this self-confessed C-student really have got into Yale if his father and grandfather had not been alumni, and his grandfather had not sat on the board of trustees?

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Lexington

Unplugging Ol' Sparky

Jan 16th 2003
From The Economist print edition

A nice idea. But George Ryan may have helped the death penalty survive

Get article background

IT IS rare for a Republican to receive a standing ovation on a university campus, even rarer for a Republican to earn praise from the increasingly partisan *New York Times*. But then George Ryan, the outgoing governor of Illinois, is no ordinary Republican.

For the past three years Mr Ryan has been engaged in a public wrestling match with his conscience. In 2000 he began a moratorium on capital punishment in his state after 13 people waiting for execution had been exonerated. On January 10th he freed four death-row inmates who, he claimed, had been tortured by policemen into confessing to crimes they had not committed. The next day he granted clemency to all the 167 on death row.

Is the tide at last beginning to turn against the death penalty? Liberals have long criticised America's acceptance of state-sanctioned death as an international embarrassment with little deterrent effect. Capital punishment is banned (except in extreme cases such as treason) in 110 countries. The European Union, which has fewer murders than America, refuses to admit countries as new members unless they renounce the practice. America's enthusiasm for it puts it alongside countries such as China, Congo, Iran and Saudi Arabia.

But now all sorts of unusual people are having second thoughts. Even men as hard-nosed as Pat Robertson and Oliver North have endorsed a national moratorium. Only half as many death sentences were meted out in 2001 as in 1998. Last June the Supreme Court ruled that executing the mentally retarded constitutes “cruel and unusual punishment”, and that only juries can impose the death penalty—which casts doubt on as many as 150 death sentences delivered by judges. Four of the top court's nine justices oppose executing juvenile murderers.

Since 1973, 102 people on death row have been exonerated and freed from prison

The reason for this soul-searching is incontrovertible evidence that America's death-penalty machinery is badly broken. Since 1973, 102 people on death row have been exonerated and freed from prison, some because DNA evidence has proved their innocence. In Illinois, in recent times, more death-row inmates have been exonerated than executed. The system is also capricious—a Texan criminal is far more likely to get the ultimate penalty than a Californian—and riddled with bias. Defendants who can afford a good lawyer are almost never executed. Poor defendants often have incompetent lawyers. In one notorious case in Texas, the state which accounted for half of America's executions last year, the defence lawyer repeatedly fell asleep on the job; in another, the counsel for the defence turned out to be a part-timer who also ran a bar, Buster's Drinkery.

So Mr Ryan's mass clemency is understandable. But will it help to get rid of the death penalty? The doubts begin with Mr Ryan, who is still mired in a long corruption investigation and thus hardly an ideal champion. More importantly, the anti-execution movement has made headway precisely because it has eschewed grand gestures in favour of a case-by-case review of the evidence. Reformers have shifted attention from the abstract question of whether the death penalty is ever justified to the practical question of whether the system works properly.

Now Mr Ryan has reintroduced the politics of grand gestures. He argued that the death penalty is “arbitrary and capricious, and therefore immoral”. Yet he fudged the question of whether it is arbitrary and capricious by its nature or just because it is badly implemented. And critics have been quick to point out that it is also arbitrary and capricious to take everyone off death row, even those who are clearly guilty. Mr Ryan's grand gesture risks changing the subject of the debate from people who have been unjustly executed to people who have been unjustly exempted from execution. It risks awakening the sleeping giant of death-penalty politics: the angry people called “victims groups”.

The 167 prisoners abruptly taken off death row in Illinois on January 11th include some of the worst murderers in the country. Consider Fedell Caffey and Jacqueline Williams. In 1995 they decided they wanted another baby (Ms Williams already had three). So they stabbed a pregnant woman to death and extracted the nearly full-term fetus from her body. (Ms Williams had some training in nursing.) For good measure, they also murdered her ten-year-old daughter and eight-year-old son. These monsters still face life in prison, but the victims groups remain apoplectic, not least because the state still has the death penalty on the statute books. The relatives who testified in Mr Ryan's hearings pleaded for the death sentences to be carried out.

A deathly hush

America briefly got rid of the death penalty in 1972, courtesy of the Supreme Court. There seems little chance of history repeating itself, for two reasons. First, public support for capital punishment remains strong despite the current fracas and a decade of declining crime rates. No sooner were the snipers who recently terrorised the Washington area captured than Virginia, Maryland and the federal government got into an argument about who would execute the trigger-pullers. Bill Clinton and Al Gore were both supporters of the death penalty. Out of today's main Democratic challengers for the presidency, only John Kerry is generally opposed, but he is still for executing terrorists.

Second, the drive for tighter standards may not help. Abolitionists want to reform the death penalty out of existence. Tighter standards will reduce the number of people sentenced to death, they argue, and that will in turn raise the Supreme Court's “evolving standard of decency”. But tighter standards could equally well make the death penalty look fairer and more efficient. In 1994, at the end of his career, Justice Harry Blackmun, a one-time supporter of the chair, announced that he “could no longer tinker with the machinery of death”. The tinkering is currently proceeding at a particularly vigorous pace; but do not mistake that for impending abolition.

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Venezuela's strike

A divided country self-destructs

Jan 16th 2003 | CARACAS
From The Economist print edition

Getty

The opposition starts to blink, as President Chávez seeks victory at any price

Get article background

ALEXANDER SOTILLO was a motorcycle messenger until he was made redundant a year ago. Now he shines shoes beside the metro station in Petare, a poor district at the eastern end of Caracas. At first glance the busy streets around him, crowded with vendors' stalls, look much as they would on a normal weekday. But this is the sixth week of the strike called by opponents of President Hugo Chávez, in a bid to force an early election. The government of Mr Chávez, a populist former army officer, claims that the strike is backed only by a privileged minority of Venezuelans, in business and the trade unions. It says that its effects are confined to the oil industry and the wealthier parts of the capital. But people in Petare dispute this. “On a normal day I can make about 60,000 bolivares [$36]. Yesterday I took 14,500,” Mr Sotillo says.

Despite the widespread hardship, there is no sign of a negotiated end to the strike. Two months of talks, chaired by César Gaviria, the secretary-general of the Organisation of American States (OAS), have proved futile. The opposition claims that Mr Chávez, who was twice elected, is ruling in an undemocratic manner, and that his “Bolivarian revolution” is taking Venezuela towards a kind of military socialism. In turn, the government sees its opponents as “terrorist” coup-plotters.

Outsiders have become increasingly concerned. Venezuela is the world's fifth-largest oil exporter; the oil price has risen by around $5 per barrel since the strike began. This week a group of “friends of Venezuela” was set up, including Brazil, Spain and the United States. Although this initiative stems from an effort by Mr Chávez to seek support from Brazil's new left-wing government and others, it has mutated into an American-backed effort to strengthen Mr Gaviria's hand.

The opposition is desperate to find a way for the private sector to return to work that does not look like capitulation, or like deserting the strikers at Petróleos de Venezuela (PDVSA), the state oil giant, who have acted as its shock troops. But it has found no way of doing this, and Mr Chávez is giving no ground. He has the support of the army and some 25% of Venezuelans. He claims to be restoring oil production with the help of strikebreakers (and foreign technicians, says the opposition). Officials claim that output has climbed to over 800,000 barrels per day. Half that, retort industry experts, who say that the PDVSA strike remains solid. Even if the strike is ended, it would take up to four months for output to return to its normal level of 3m b/d.

Mr Chávez seems to be winning his battle to abort a non-binding referendum on his rule, scheduled by

the electoral authority for February 2nd after the opposition gathered the necessary signatures. The government claims, controversially, that this is unconstitutional; it says a referendum cannot be held before August. The Supreme Court (which was hand-picked by the president's allies) seems likely to agree.

What is beyond dispute is the mounting toll on daily life and Venezuela's economy. Shopkeepers in Petare say that takings are well below normal. Many workers are receiving only half-pay or less. While petrol has run out in opposition neighbourhoods, the government has managed to ensure that fuel is available in Petare, many of whose residents remain loyal to Mr Chávez. But maize flour and cylinders of cooking gas, two staples for the poor, have become scarce and expensive. Residents have started ambushing gas-delivery trucks, diverting them to Petare. “We sell them at the proper price and give the driver a little more for his trouble,” says Omar León, a community leader.

Mr Chávez has said he will send the army to seize the warehouses of food manufacturers, whom he accuses of “hoarding”. The companies, which support the strike, say their contingency plans to ensure supplies of basic goods have been disrupted by fuel shortages and government ineptitude and harassment. Both sides say they fear that looting could break out.

Even if the strike crumbles, Venezuela's economic prospects are grim. Since 1999, the economy has shrunk by almost 10%; some economists suggest that this year could see a further decline of at least as much. Facing a fiscal chasm, the government will have to slash spending, and resort to printing money. But until the oil industry returns to work, figures are just guesswork. What is not is the wave of bankruptcies that will shrink the private sector. So tens of thousands more workers will join Mr Sotillo in the informal economy, where one Venezuelan in two grinds out a precarious living. Others will swell the ranks of the 17% who are officially unemployed. Mr Chávez may win this battle. But Venezuela has already lost.

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Dissent in Cuba

David and Goliath

Jan 16th 2003 | HAVANA
From The Economist print edition

A one-party election faces a small but unprecedented challenge

Get article background

THE result is not in doubt. On January 19th, Cubans will elect an official slate of candidates—there is no other—for the country's single-chamber parliament for a new five-year term. In so doing, they will renew the reign of Fidel Castro. At 76, Mr Castro, now grey and a little frail, has been in power for 44 years. But nobody expects him to hand over to a successor. This is not only because he is no quitter. It is also because the survival of the island's communist regime depends as much as it ever did on its iconic leader. Indeed, this dependency has if anything been increased by the emergence of an unprecedented challenge by a tiny dissident movement.

Many Cubans still idolise Mr Castro, fearing what life would be like after he goes. Many others cannot wait for that day; but since Cuba lacks freedom of expression, there is no way of knowing how many. Mr Castro himself has campaigned as if he faced a competitive election. He has opened schools and clinics; the state-run media have urged voters to turn out for national unity against the United States.

But these are hard times in Cuba. A partial recovery from the penury into which the economy was thrown a decade ago by the collapse of the Soviet Union, and the withdrawal of its subsidies, has stalled. After rapid expansion, tourism has declined since September 11th 2001. Last year, Mr Castro agreed to close half of the country's inefficient sugar mills. And foreign investment has failed to make up for the steady deterioration of Cuba's infrastructure that followed the Soviet collapse.

While Mr Castro campaigns at home, the man who has emerged as his chief opponent has been collecting prizes and praise in Europe and the United States. Last year, Oswaldo Payá, a medical-equipment engineer, presented the National Assembly with a petition signed by 11,000 people, calling for a referendum on civil rights, an amnesty for non-violent political prisoners, the introduction of free enterprise and electoral reform. Cuba's constitution obliged the assembly to debate the petition. But Mr Castro swiftly closed this loophole by gathering millions of signatures to amend the constitution and declare communism “irrevocable”.

Still, after decades in which opposition to Mr Castro was led by exiles in Miami, Mr Payá's petition drive (known as the Varela Project, after a 19th century independence campaigner) marks an important change. It has united most of the splintered and harried dissident groups inside Cuba. Unlike most of the exiles, its sponsors oppose the American embargo against the island. And despite last year's snub, they still seek to work within the constitution.

On a visit to Havana last year, Jimmy Carter, a former American president, gave the dissenters unprecedented publicity by praising the Varela Project during a televised speech. Despite this, Mr Payá has had far more recognition abroad than at home. Though his travels went unreported in Cuba, he was allowed to go to Europe last month to receive the EU's Sakharov human-rights prize. He then went to Washington, to meet Colin Powell, the secretary of state, and to Rome to receive the blessing of the pope.

The Varela Project will have no bearing on Sunday's election. Around 95% of Cuba's 8.3m registered voters are expected to turn out. Some will go willingly, others for fear of the ostracism or worse meted out to “counter-revolutionaries”. On past form, the official slate will get the backing of 90% of the electorate, while 5% will cast blank or spoiled ballots as a protest.

The assembly meets only twice a year for a few days, but one of its duties is to choose a Council of

State, which will in turn ratify Mr Castro's presidency until 2007. This is theatre, not drama. But Mr Castro cannot live for ever. And the Varela Project shows no signs of going away, having gathered a further 10,000 signatures—even though organisers and signatories alike fear reprisals. “The transition has begun because Cubans are shedding their fear,” Mr Payá says.

Mr Castro, who seeks more foreign trade, investment and aid, appears unwilling to crush the Varela Project outright. “We will deal with it at the appropriate moment,” he said recently of the proposed referendum. It is anyone's guess when that might be—or how many more Cubans will brave their fears to demand the right not just to vote but to choose.

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Ecuador's new president

Command without control

Jan 16th 2003 | QUITO
From The Economist print edition

Dreams of change meet harsh realities

OUTSIDERS ask of Lucio Gutiérrez, who was sworn in as Ecuador's president on January 15th, whether he is another Hugo Chávez, or another Lula. Like Venezuela's ruler, Mr Gutiérrez is a former army officer who staged a failed coup against an elected president. But like Brazil's Lula, he has moved to the centre, and seems to want to mix social reform with economic orthodoxy. Like both men, he is not from the elite (he is the son of a pedlar), and can claim to represent social groups that have been excluded from power—in his case, Ecuador's poor Andean Indian farmers. But what Ecuadoreans want to know is whether Mr Gutiérrez, a political neophyte, will fare any better than their past two elected presidents, neither of whom lasted longer than 18 months.

Mr Gutiérrez has picked a varied cabinet. The foreign minister is Nina Pacari, a lawyer and Andean Indian leader. A retired general will run energy, perhaps heralding a bigger role for the state in oil. Mauricio Pozo, the finance minister, is an orthodox economist who is liked by investors. Prior to his inauguration, Mr Gutiérrez travelled to the United States and Europe, making a generally good impression.

He has been doing less well at home. His main problem is that his allies have only 38 of the 100 seats in Ecuador's Congress, where the traditional parties have closed ranks against him. An opposition alliance, headed by the conservative Social Christians and centre-left Left Democracy, is likely to block Mr Gutiérrez's plans. These include an attack on corruption, and a scheme to prise key jobs, such as the regulation of banks and telecoms, from party control. The president is partly to blame. Since his election in November, he has made little effort to woo the parties. Instead, he threatens a referendum to reform both the legislature and the courts.

Mr Gutiérrez launched his coup in 2000 in part against a previous president's decision that Ecuador should adopt the dollar as its currency. He now says he has no plans to change this. But making dollarisation work means disciplined policies, especially since Ecuador, which defaulted on its debt in 1999, cannot tap capital markets for loans. Mr Gutiérrez inherits $700m in unpaid bills; teachers and health workers are striking over unpaid wages; and this year Ecuador must make debt payments of $2.1 billion. So having campaigned on a promise of more jobs and social spending, Mr. Gutiérrez has already started to talk about the need to shave 10% off most ministerial budgets, reduce the public sector's wage bill and cut the subsidy on cooking gas. He may also have to raise petrol and electricity prices. In return he hopes for a new loan from the IMF, and has asked creditors for lenience.

As an army officer, Mr Gutiérrez was accustomed to command and obedience rather than negotiation and persuasion. Given the opposition he faces from Congress and vested interests, his instinct may be to try to ignore the constitution and rule by plebiscite. That is a road that Mr Chávez has travelled, with disastrous consequences. Ecuadoreans must hope that Mr Gutiérrez has a better idea.

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Violent Canada

Gun law

Jan 16th 2003 | OTTAWA
From The Economist print edition

Taking pot-shots at a white elephant

THIEVES with stolen shotguns blasted their way into a lakeside cottage near Ottawa and killed two retired teachers. A Pakistani-born community leader was shot dead in the street as he returned to his suburban Vancouver house. A seven-year-old girl picked up a semi-automatic handgun in her home near Toronto and fired it point-blank at her little brother.

AP

At home on the range—and, yes, this is Canada

These deaths by firearm have all occurred in the past few weeks. They seemed to justify a controversial federal firearms registry, launched in 1998 by the Liberal government of Jean Chrétien, which has drawn fire from two directions. The auditor-general has slammed its huge cost, of perhaps C$1 billion ($650m) by 2005, up from an original estimate of just C$2m (net of registration fees). And many gun owners are resisting. Some 900,000 failed to meet the deadline of January 1st for registering their firearms. Groups of gun-toting protesters, including some Korean War veterans, immediately courted arrest by demonstrating in Alberta and Ottawa.

Officials have reacted warily. The justice minister has extended the deadline to June for those who put their intention to register in writing. The ministry says that many owners who planned to register were obstructed by opponents (including the American gun lobby) who blocked phone lines and the registry website.

But criticism of the scheme is mounting. Several provinces that issue hunting licences have called for its suspension. An Ontario police chief, originally in favour, now says the money would have been better spent on extra police.

The government says the expense is justified. It claims to have screened and licensed 2m owners (refusing around 7,000) and registered nearly 6m guns. Thefts of firearms have fallen by half since 1991, controls on arms-smuggling from the United States have been tightened, and the police make much use of the database system in their investigations.

Despite the recent cases, gun crime has been falling steadily for a decade. There were 554 murders in Canada in 2001, or only a third as many per head as in the United States. Only 171 of these involved guns. Suicides account for four-fifths of the total gun deaths in Canada.

So was the registry really needed? Canada has long-standing laws restricting handguns and regulating the purchase of hunting rifles. After a deranged gunman slaughtered 14 women students at a Montreal university in 1989, tighter licensing rules were brought in. Critics point out that criminals tend to use smuggled, and therefore unregistered, guns anyway. But having spent so much on the registry,

Canadians are stuck with it now.

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Mexico's cabinet reshuffle

A maverick departs

Jan 16th 2003 | MEXICO CITY
From The Economist print edition

Vicente Fox loses his most outspoken minister

BY ENDING seven decades of rule by the Institutional Revolutionary Party (PRI), Vicente Fox seemed to herald a bold new era in Mexico. Yet after two years in power, Mr Fox's government has earned a reputation for caution that borders on inertia. The exception was Jorge Castañeda, the foreign minister. So his resignation on January 10th will make the government even less exciting.

Mr Castañeda, a brash and controversial former leftist academic, was the only member of the government to produce a clear vision of modern Mexico and its place in a changing world. He tried to translate the euphoria surrounding the end of one-party rule into policy. Democracy and human rights should replace nationalism, non-interventionism and a knee-jerk anti-Americanism as the values inspiring Mexican foreign policy, he argued. After decades of fraternal solidarity with Fidel Castro, Mexico voted to condemn Cuba's human-rights record at the UN, scandalising the country's political classes. For the first time, Mexico sought (and won) a seat on the UN Security Council.

Mr Castañeda also wanted a new relationship with the United States, and to transform the North American Free-Trade Agreement into something more like the EU. Central to this was a deal to legalise the presence in the United States of millions of illegal Mexican migrants. But the attacks of September 11th 2001 made it impossible. His frustration with America over this was the only political reason he gave for resigning.

His replacement is Luis Ernesto Derbez, a former World Bank official whose old job of economy minister is being filled by Fernando Canales, the governor of the industrial state of Nuevo León. Mr Derbez says he wants to combine foreign affairs with trade and economic issues, but is otherwise unlikely to change the broad contours of policy.

Mr Fox may draw some benefits from the change. Mr Castañeda was seen by many as arrogant and abrasive. Mr Canales will strengthen Mr Fox's semi-detached ties to his own conservative National Action Party (PAN). The government's relations with Congress should improve. But its political base has narrowed. It will face a mid-term election this year looking more conservative, and facing an opposition PRI that is happy to occupy the centre-left.

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North Korea

Smiling through with Kelly

Jan 16th 2003
From The Economist print edition

EPA

But talks to end North Korea's nuclear defiance are nowhere in sight

Get article background

ALL are agreed. There must be a diplomatic solution to the crisis brought about by North Korea's nuclear defiance. Even North Korea itself, which has ended a long agreed freeze on its plutonium production, renounced the Nuclear Non-Proliferation Treaty (NPT), and threatened to restart its missile tests and to engulf America in a “sea of fire”, says all it really wants to do is to sit down and talk about a non-aggression treaty with “United States nuclear maniacs”. For his part, President George Bush, who regards North Korea as part of an “axis of evil” because of its past proliferation habits, was this week talking of reviving a “bold initiative” to offer it large-scale fuel and food assistance. Meanwhile, a senior State Department envoy, James Kelly, was en route from Seoul (pictured with Lim Dong-won, South Korea's presidential security adviser) to Beijing and Tokyo, talking “positively”, as he put it, about ways out of the impasse.

North Korea even sent its deputy UN ambassador last weekend to talk to Bill Richardson, now governor of New Mexico but formerly a senior troubleshooter in the Clinton administration. Russia, for its part, has offered to mediate more formally between North Korea and America, and is sending a deputy foreign minister to North Korea, China and the United States. China, which agrees that North Korea must give up its weapons-dabbling but otherwise would prefer to keep a low profile, this week offered Beijing as a venue for talks. So the diplomatic stage for a resolution of the problem is all set, you might think. But, alas, nothing involving North Korea is ever that simple.

The North Korean news agency this week dismissed Mr Bush's offer as a “deceptive drama”, since he also said that, for North Korea to win greater assistance, it must first give up building nuclear weapons. Some American officials make no secret of their wish to see North Korea under sanctions with its missile shipments to other countries intercepted, rather than offered more assistance. But Mr Kelly told the South Koreans this week that the administration had no such plans.

North Korea denies flatly that it is building nuclear weapons, though it has previously said it reserves the right to have them. It has accused America of distorting its admission last October that it was enriching uranium (though it has failed to say how). Yet it has never allowed proper nuclear inspection by the International Atomic Energy Agency of its uranium and other nuclear facilities, as it was always supposed to do under the NPT. It claims the agency and its 35-nation board are mere tools of America, yet, oddly, offers to let America do the inspecting instead.

In demanding to deal only with America, North Korea has a bigger purpose. It has long wanted a separate peace treaty with the United States (none was concluded after the Korean war 50 years ago). That would cut the South Korean government neatly out of the diplomatic picture and strengthen the case that American forces, stationed in the South since the North invaded, should go home. For these reasons alone, the North's demand for a separate non-aggression treaty with America is also unlikely to be met (Congress would anyway not support a treaty with a regime that has shredded all previous security agreements, with both America and with South Korea). American officials have repeated that they have “no hostile intent” towards North Korea—a phrase coined in a joint communiqué the Clinton administration signed with North Korea in 2000.

But that does not stop North Korea trying to fan the anti-American resentment in South Korea that seemed to grow as the nuclear crisis collided with its election of a new president. And that will now provide a headache for the winner, Roh Moo-hyon, who takes office next month and is expected to make an early visit to Washington. During his campaign, Mr Roh argued for a continuation of South Korea's controversial “sunshine” policy towards North Korea. In the past he has criticised the American troop presence too. But this week the president-elect went out of his way to assure Mr Kelly that he regarded the alliance with America as “precious”.

Along with Japan, Mr Roh has sharply criticised the North's withdrawal from the NPT. And South Korean officials, relieved that America has opted to try talking to North Korea rather than just confronting it, have been keen to maintain close co-ordination with both Japan and America. Next week, South Korean officials meet their North Korean counterparts for ministerial talks, and say they will impress upon them the need to abandon their nuclear activities, while continuing to discuss economic and other co-operation.

But America's secretary of state, Colin Powell, let it be known this week that America will not be satisfied with simply getting North Korea to go back to earlier agreements, where it was notionally still in the NPT but inspectors could monitor only the freeze on its plutonium facilities. “A new arrangement” would be required, he said, implying that more extensive checks were needed. He also questioned whether work on two western-designed nuclear reactors—part of a 1994 deal to freeze the North's plutonium production—would be resumed. Might there be better (meaning, no doubt, safer) ways to provide North Korea with the energy it needs?

But North Korea still has to be persuaded to go along with any checks on its nuclear activities at all. This week it was threatening to resort to “other options” to bring America to its senses. Lots to discuss, but so far no one is talking.

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Treasure hunting in Asia

All that glisters...

Jan 16th 2003 | MANILA
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Alternative thinking on debt problems

THESE are reassuring times for those who had been worrying about the Philippines' ballooning national debt. President Gloria Macapagal Arroyo has declared that at least $18 billion-worth of gold lies buried under Mount Diwalwal, a peak on the island of Mindanao. “And that's only one mountain,” she elaborated this week. Get a decent mining operation going, and the country's mountainous liabilities will soon be a thing of the past.

As a solution to the Philippines' fiscal woes, the scheme has many advantages. It arouses less public hostility than tax hikes or spending cuts. It is easier to push through Congress than controversial privatisations. And it looks more promising than attempts to get to the bottom of the multi-million dollar corruption claims bandied about by Filipino politicians.

The scheme has plenty of noble precedents. Several previous presidents pinned their budgetary hopes on a multi-billion-dollar hoard supposedly hidden somewhere in the country during the second world war by the retreating Japanese. The government of Corazón Aquino allowed treasure-seekers to turn an old Spanish fort in Manila inside out looking for it. Imelda Marcos, the well-shod wife of a former Filipino strongman, attributed her seemingly ill-gotten wealth to it. That claim, in turn, prompted Joseph Estrada, Mrs Arroyo's predecessor, to plough up the gardens of a former presidential palace looking for the hoard.

Indeed, other cash-strapped South-East Asian countries have adopted similar deficit-fighting strategies. Last year, on the advice of a fortune-teller, Said Aqil al-Munawar, Indonesia's minister of religious affairs, began digging in the town of Bogor for an ancient trove opulent enough to pay off the country's $130 billion debt. The year before, Thaksin Shinawatra, the prime minister of Thailand, flew to a remote jungle cave to encourage prospectors hunting for yet more Japanese loot.

The policy is not without risk. Mr Thaksin suffered ridicule when the $25 billion-worth of American government bonds yielded by the Thai treasure-hunters turned out to be forgeries. Mr al-Munawar was accused of vandalising historic sites. To be fair to Mrs Arroyo, gold mining in the Philippines does have proven potential. Just as a precaution, though, Congress might consider expediting her proposal to reform the country's main tax-collection agency.

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China

Containing unrest

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The government moves swiftly to stop protest spreading

PROTESTS in China make fewer waves than they used to. Sixteen years ago, thousands of students in Hefei, an inland provincial capital, took to the streets in protest against the Communist Party's rigging of local elections. Their action triggered protests on campuses in several other cities and caused the party chief, Hu Yaobang, a liberal, to lose his job. Last week, thousands of students in Hefei took to the streets in the biggest spontaneous demonstrations in the city for several years. This time, campuses elsewhere in the country are quiet.

On January 15th, a court in the north-eastern city of Liaoyang tried two workers who early last year helped to organise one of the biggest sustained protest movements by Chinese workers in Communist China's history. But even though the north-east suffers from some of the worst urban deprivation in the country, the Liaoyang demonstrations failed to bring others in the region out in sympathy, let alone arouse the millions of disaffected workers in other parts of China.

The party, however, is not lowering its guard. It is widely believed in Hefei that the newly appointed party chief, Hu Jintao, intervened personally to calm the protests that erupted in the city on January 7th. Luckily for Mr Hu, the students' main grievance was an easy one to address without giving the impression that the party was buckling under pressure. Their complaint was about poor safety at a gate of the Hefei University of Technology where a lorry had collided with a group of students, killing one of them and injuring two others. Their passions were further inflamed by a report in a state-run newspaper suggesting the victims were at fault.

Party general secretaries do not normally concern themselves with traffic accidents. But Mr Hu knows where students' protests can lead (the 1989 upheaval in Tiananmen Square being, for the party, a particularly unsettling example). He promptly ordered that the lorry driver be punished and that safety conditions at the campus entrance be improved. Mr Hu was in no mood to dither, as his predecessors did to their cost in 1986 and again in 1989, when the leadership's initial indecisiveness allowed the protests to escalate. On a university internet bulletin board, several postings have expressed concerns that the police may be secretly investigating this month's demonstrations. Assuaging protesters' demands, then going on to round up the ringleaders anyway, is a favoured tactic in China.

In Liaoyang, the ringleaders of the workers' protests are likely to be sent to prison. The trial of Yao Fuxin and Xiao Yunliang was wrapped up in a mere four hours. The court will convene again at an unspecified date to announce its verdict. The party's aim is to send a signal to others who might want to try something similar. And there are plenty of them.

In a report published recently the Chinese Academy of Social Sciences gives details of a survey of laid-off workers in Liaoning Province, where Liaoyang is located. The 995 respondents were asked whether they would join protests if some unusual situation arose and they were invited to do so by colleagues or neighbours. Nearly 28% said they would take part, about 35% said they would express sympathy and nearly 7% said they would watch. Fewer than 12% said they would try to persuade the protesters to give up their action.

Even though the party has not had to face concerted protests by disparate groups since 1989, urban unrest has been growing. The academy's survey concluded that there was a conspicuous increase in mass incidents last year, triggered by disputes over social-security payments. It called for better mechanisms for preventing and controlling street protests. A report published in December by an advisory body reporting to China's cabinet said that sudden mass incidents were likely to become more common as a result of the country's accession in 2001 to the World Trade Organisation, which officials

say could exacerbate unemployment in some sectors of the economy.

As long as such protests remain localised, the government has no great cause for alarm. And if there is one thing Chinese officials agree on, it is the need to keep unrest from spreading. A survey of 133 senior officials published this month found that nearly 58% of them believed that maintaining social stability was the most critical precondition for the success of the country's reforms. The next most commonly cited requirement, more scientific and democratic approaches to policymaking, polled fewer than 19%.

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India's restive north-east

The Naga saga's next chapter

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Peace prospects for one of the world's longest insurgencies

AP

Time to lay down his spear

AS PEACE declarations go, that issued on January 11th by Isak Chisi Swu, a leader of the Naga people, who live in India's north-east and in Myanmar, was emphatic enough. There will be no more fighting, he said, between Nagas and Indians. But there were many sceptics. Formal negotiations with the Indian government have not even begun. Yet already rival Naga leaders are complaining of a sell-out of their demand for independence. Other north-eastern groups, fretting that any Naga gain would be their loss, gave warning of renewed unrest.

There is no denying, however, that progress has been made in resolving a conflict that has lasted on and off for half a century. The Naga insurgency has in turn helped fuel other secessionist wars that sputter on across the north-east. One study lists 58 insurgent groups. Some run shadow governments, or, bluntly, extortion rackets. Nagas say the conflict has cost the lives of some 200,000 of their people, from a Naga population now estimated at 3.5m-4m. The Indian army says it has lost more soldiers in the north-east than in that other quagmire of thwarted separatism, Kashmir.

Since 1997, a ceasefire has largely held in the Indian state of Nagaland. Indian leaders and officials have held sporadic peace talks with Mr Swu and Thuingaleng Muivah, the other eponymous leader of the Nationalist Socialist Council of Nagaland (Isak-Muivah). By one count, there are 66 Naga tribes. But the Naga resistance is split into three main camps, with the Isak-Muivah group, with some 2,000 fighters, the strongest. Previous talks have taken place abroad, where the rebel leaders long lived in exile. This month, for the first time in four decades, Mr Muivah and his comrade have come to Delhi. They have met the prime minister, Atal Behari Vajpayee, and other bigwigs, as well as delegations of their own people from Nagaland. They have promised not to disrupt state elections to be held in February in Nagaland (and two other north-eastern states).

Even so, the outlines of a possible settlement remain murky. The Nagas might accept autonomy short of full independence. But it is unlikely they will agree to Nagaland's current borders. As well as in Myanmar, Nagas also live in the neighbouring Indian states of Arunachal Pradesh, Assam and Manipur, and Nagas have always sought a nation incorporating all these homelands.

Manipur, birthplace of Mr Muivah, presents the biggest hurdles to peace. It is an ethnic patchwork and its non-Naga majority is alarmed at the Nagas' traditional demand for some two-thirds of the land area of their state, which has its own long-standing claim to independence. In June 2001, when the Indian government agreed to extend the truce from Nagaland to all the Naga-inhabited areas, similar fears led to protests in Manipur, in which at least 18 people died. The offending phrase was expunged from the ceasefire agreement.

Already, the muffled purring noises coming out of the meetings in the capital have provoked politicians in Manipur and elsewhere

to utter warnings about the consequences of carving up other states to meet Naga demands. But there is a brighter perspective: that if peace can be reached with the largest Naga group, it might prove as contagious as did the insurgency, showing others weary of hopeless wars that compromise need not mean defeat.

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Militant Islam in Pakistan

The other armies

Jan 16th 2003 | LAHORE
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A president's unfulfilled promises

Get article background

DESPITE promises by Pakistan's president, General Pervez Musharraf, to stamp out extremist Islam and terrorism, Jihad Inc is doing roaring business in the country. In the past few weeks, Maulana Masood Azhar, the leader of Jaish-e-Muhammad (Army of Muhammad), and Hafiz Saeed Butt, the leader of Lashkar-e-Taiba (Army of the Pure), both organisations banned in Pakistan, were freed from detention on the orders of the Lahore High Court. The government seemed unable to convince the court that they were a threat to public order.

Mr Azhar had been jailed in India, but was released in exchange for passengers hijacked in an Indian airliner in 1999. In October 2001 he claimed responsibility for a terrorist attack on the parliament building in Srinagar, in Indian-held Kashmir, in which several people died. Mr Butt's Lashkar-e-Taiba is believed to have carried out an attack on the Indian Parliament building in Delhi in December 2001 in which 14 people were killed. Both leaders are now free to make speeches extolling *jihad* (holy war) against India and fuel anti-Americanism generally.

AP

Musharraf finds it hard to please

On the eve of October's general election, Maulana Azam Tariq, leader of another banned organisation, Sipah-e-Sahaba (Soldiers of Muhammad's Companions), was bailed from jail and successfully stood as an independent. He faces at least 14 charges of being involved in murder. However, Pakistan's new prime minister, Zafarullah Khan Jamali, sought and gained his support in a vote of confidence in parliament.

The case of Aimal Kansi, who was executed in the United States in December for murdering two members of the CIA, also points to the government's reluctance to be firm over terrorism. When his body was brought to Baluchistan province for burial, the local army corps commander attended the funeral and the National Assembly condemned Mr Kansi's “executioners”.

Meanwhile, at Friday prayers at mosques throughout Pakistan, the virtues of *jihad* are preached. Muslims are urged to resist all infidels, especially those supporting “America's crusade against Islam in Palestine, Kashmir, Chechnya and Afghanistan”. Possible waverers get sinister warnings. The mullah at a Lahore mosque during Ramadan last November actually screamed that “all those Muslims who do not pray five times a day should be killed”.

The outlawed organisations of Mr Azhar and Mr Butt have simply changed their names. They seem to have plenty of money; they are setting up new offices, enlisting fresh recruits to their cause and training them in not-so-secret camps across the country. In fairly literate Pakistan (43%) there is plenty for a zealot to read. There are at least 40 *jihadi* publications in the vernacular, Urdu, including six weeklies, four fortnightlies and 30 monthly magazines.

Although photography is forbidden in orthodox Islam, some magazines regularly publish pictures of slain *jihadis* in Kashmir and elsewhere. The total circulation of all *jihadi* publications is over 1m, which is about equal to the circulation of all Urdu daily newspapers and ten times that of all English dailies in the country. “The literature is heavy on the virtues of dying for the cause of Islam, ” says Amir Rana, who has written a courageous book about the *jihad* in Kashmir and Afghanistan. “Emotional letters from

mothers and sisters of *jihadi* martyrs are meant to inspire others. Many of the publications present a no-holds-barred, absolutist view of the world."

All this is embarrassing to the government, which insists that it enforces its stringent security laws. A number of al-Qaeda suspects who crossed into Pakistan from Afghanistan have been handed over to America's FBI, which has agents in the country. But General Musharraf will be aware that any merit marks he gains from a grateful America will be offset by hostility from many of his countrymen.

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Free trade in information

No news from Japan

Jan 16th 2003 | TOKYO
From The Economist print edition

The European Union complains

IN A democracy as stagnant as Japan's, you might expect the national newspapers to stir things up. But much of the Japanese press is adverse to change, with reporters from some of the top newspapers sharing the clubby life of politicians and bureaucrats. More enterprising reporters from some of the weekly magazines, together with foreign journalists, grumble that they are denied this sort of access to the top policymakers. The European Union has added its weight to demands for reform. It has included Japanese media arrangements in its annual list of economic complaints, saying they are a “restraint on the free trade in information”.

When Junichiro Koizumi went to North Korea in September, the first visit by a Japanese prime minister, almost all the spare seats in his plane went to Japanese journalists. Of the eight allocated to foreign journalists, only one went to a European reporter. It is how foreign journalists are usually treated, they say. Although accredited by the Japanese government, they are often barred from press conferences, usually because the *kisha* (journalist) clubs, which hold such events, will not let them in. The EU says any accredited foreign journalist should be allowed to attend government press conferences by simply showing his or her press card. Beyond that, the EU is pushing for Japan's 800 or so *kisha* clubs to be scrapped as government sources of information.

Many Japanese journalists defend the system and say that most *kisha* clubs in Tokyo are now open to foreign journalists. But what western-trained journalist would want to spend much time in them? Members may spend hours sitting around doing nothing, while waiting for a friendly politician or bureaucrat to provide them with some scraps of news.

Japan's political system probably suffers more than foreign reporters do. The main newspapers provide only shallow coverage of most issues facing the country, especially its decade-long economic recession. Taro Kono, head of the Foreign-Affairs Committee in parliament, is worried that the *kisha* clubs' tenacious grip on news has led to a steady decline of interest in Japan abroad. As a result, a number of foreign newspapers have closed their Tokyo offices. Perhaps best not to upset those foreign reporters still trying to write interestingly about the place, he says.

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Turkey, Iraq and America

Reluctantly under the whip

Jan 16th 2003 | ANKARA
From The Economist print edition

EPA

“No war”, say the Turks politely, but the pressure on their government is brutal

AS THE Bush administration intensifies its preparations for a possible war on Iraq, Turkey, one of its most useful allies, has been stubbornly refusing to fall into line. It is now more than a month since Paul Wolfowitz, America's deputy defence secretary, asked the Turks for approval to deploy thousands of American ground troops in Turkey, in preparation for a “northern front” against Saddam Hussein's forces in Kurdish-controlled northern Iraq. Turkey has yet to answer.

Assorted hardline American officials have been taking it in turns to warn Turkey, through the American press, that unless it makes up its mind very soon, its strategic-ally status will be held in question. And this could mean less American support for Turkey's financial needs, as well as for its efforts to join the European Union.

The administration has been quick to blame Turkey's conservative Justice and Development Party, which catapulted to power in the November 3rd election, for this state of affairs. The spin coming out of Washington is that Turkey's powerful and determinedly pro-western generals are ready to side with the Americans, but are being held back by the government.

This should be taken with a grain of salt. If anything, Turkey's soldiers are even more worried than its civilians about the potential effects of a war, though they seem happy to let the government take the heat. Last week, General Hilmi Ozkok, the new chief of the general staff, declared that a war “would be against Turkey's interests...I have not heard anyone here say, ‘let there be a war'.” When Abdullah Gul, the prime minister, briefed parliament on his recent tour of Arab and Iranian capitals, he declared that Turkey “could not afford to be seen as a country encouraging war”. He angrily denied claims that he is at odds with the generals over Iraq.

The army's chief concern is that Iraq's Kurds, with America's tacit blessing, would exploit the turmoil that could follow an Iraqi defeat by setting up their own independent state in the chunk of northern Iraq that has remained under their control since the end of the 1991 Gulf war. Moreover, the presence of American forces in Iraqi Kurdistan would make it that much more difficult for Turkey to carry out its threats to intervene militarily should the Iraqi Kurds seek to break away from Baghdad. Indeed, Mr Wolfowitz made it clear that while his government did not support Kurdish independence, unilateral Turkish intervention in the north would not be welcome.

The other worry, for both soldiers and civilians, is the economy. Another war could unravel the modest

progress that Turkey has made over the past few months in dragging its economy out of its worst recession since the second world war.

The Turks claims that they lost up to $100 billion in trade revenues because of the economic sanctions slapped on Iraq after its invasion of Kuwait in 1990. The Kurdish-dominated provinces bordering Iraq were among the worst affected, prompting thousands of unemployed young men to take up arms with the separatist rebels of the PKK. This is the group that waged a 15-year-long campaign for Kurdish independence, a campaign that ended only with the capture of the PKK leader, Abdullah Ocalan, in 1999.

Public opinion is firmly on the government's side. A recent opinion poll showed that nine out of ten Turks are against the war. And Mr Gul has repeatedly pointed out that under Turkish law parliamentary approval is needed for the deployment of foreign troops on Turkish soil.

Yet, on issues of national security, Turkish governments and parliamentarians have traditionally taken their cue from the generals. Probably, as American pressure mounts, resistance will begin to crumble. This week, 150 American technicians began surveying Turkish bases and ports for their possible use in a war. And the government has quietly shelved its demand for a second UN resolution authorising the use of force before committing itself to war. It now says it is waiting for Hans Blix, the chief weapons inspector, to deliver his findings on January 27th.

Officials close to Mr Gul confirm that Turkey will almost certainly reopen its bases to warplanes bombing Iraq, as it did in the Gulf war. General Richard Myers, the vice-chairman of the joint chiefs of staff, who was due in Ankara late this week, is expected to renew demands for the deployment of ground troops.

So Turkey plays for time for as long as it can. Generals and ministers are at one in hoping that Mr Hussein helps them out by heeding the advice of his fellow Arab leaders, and kindly stepping down.

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Palestinian reform

All done with mirrors

Jan 16th 2003 | EAST JERUSALEM
From The Economist print edition

Or rather, with the help of a video link

TALK of Palestinian Authority (PA) reform is a “charade” said the Israeli government, as it refused to allow Palestinian delegates to travel to Britain for a conference on reform this week. The conference was held anyhow, on January 14th, with high-level delegates from the Middle Eastern “quartet”—America, the UN, the EU and Russia—and representatives from Egypt, Jordan and Saudi Arabia. Palestinian officials took part by way of a video link to Ramallah and Gaza.

Is Palestinian reform indeed a sham? Britain's foreign secretary, Jack Straw, praised the work of the newish finance minister, Salam Fayyad, who, under intense supervision from donor countries, has concentrated all revenues into one account, presented a new budget more or less on time, and generally brought transparency to the authority's murky finances. None of this, however, has helped him to extract the $600m Israel owes the PA in tax, which is desperately needed to meet the $747m budget deficit.

Other areas of reform earned less praise. Everybody, Palestinians included, is underwhelmed by the cabinet appointed in October. This is seen as a cosmetic change made by Yasser Arafat to ward off challengers to his throne, rather than to introduce accountability to his government. And though there has been progress on drafting a new constitution—the Palestinians promised to produce one by the end of the month—Mr Arafat has ruled that the crucial question of appointing a prime minister cannot be seriously raised until there is some sort of Palestinian state.

The gravest charges concern security. Israel accuses the PA's various police forces of not lifting a finger to tackle the increasingly freelance Palestinian militias fighting in the occupied territories and beyond, some of whose men are or were members of the security forces. The Palestinians respond that the collapse in security derives from Israel's attacks on PA policemen, and that in any case the Israeli army is now in total occupation of the West Bank, as well as of large chunks of Gaza. “In the West Bank,” says one of Mr Arafat's security aides, “there are barely any police forces left to reform.”

Less publicly, PA officials admit that their police no longer have the power or authority to bring the militias to heel. The main security effort is concentrated on the talks going on between all the Palestinian factions in Cairo. The aim of these talks is to agree a common policy for the “struggle”, including an end to Palestinian attacks on Israeli civilians and the factions' recognition of the PA as the sole governing authority in the West Bank and Gaza. Mr Arafat has approved this policy: Hamas, Islamic Jihad and parts of his own Fatah movement so far have not.

But without such changes, talk of “reform” does not mean very much. “The suicide bombings will not bring us peace, and confiscating our liberty will not bring [Israel] security,” the authority's information minister, Yasser Abed Rabbo, told the London conference.

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Zimbabwean plots

The whiff of rotting tyranny

Jan 16th 2003 | HARARE
From The Economist print edition

Intimations of Robert Mugabe's political mortality

Get article background

AP

I'm still here, so there

SUDDENLY, Robert Mugabe looks vulnerable. The Zimbabwean president started the year so confidently in control that he went away for a two-week holiday in Thailand. But when he returned this week he was defensively denying reports that his top military men were encouraging him to step down.

Two of Mr Mugabe's most trusted deputies, it emerged, had approached the opposition with a plan to retire Mr Mugabe and form a new government. Morgan Tsvangirai, the leader of the Movement for Democratic Change, told newspapers that a mediator acting for the speaker of parliament, Emmerson Mnangagwa, and General Vitalis Zvinavashe, head of the armed forces, had suggested they could persuade Mr Mugabe to step down if the opposition would join them in a power-sharing coalition government. Mr Tsvangirai rejected the offer, saying Zimbabwe must return to democracy through open negotiations, not backroom deals.

Mr Mnangagwa and General Zvinavashe hotly denied the plan, but their intermediary, retired Colonel Lionel Dyck, privately confirmed it. The two must be feeling nervous now that Mr Mugabe is back: he is known for dealing ruthlessly with any challenge to his power. But the president must also be uneasy. News of the plot was received with handclapping glee in Harare's countless queues. Moreover, the image of Mr Mugabe's vincibility may inspire other predators.

Two small food riots erupted recently, one in Harare, one in Bulawayo. In both incidents Mr Mugabe's “war veterans” and youth militia clashed with police over who would control the sale of the scarce staple food, maize meal. Mr Mugabe has created thuggish groups to bolster his rule through intimidation and violence. They have been encouraged to act with impunity. He will now find it difficult to rein them in. Indeed their behaviour may well provide the sparks that set off explosions in an increasingly volatile country.

Famine now affects nearly two-thirds of Zimbabwe's 12m people, and more hunger looms. Only 50% of the land once farmed is currently under cultivation. Seeds and fertiliser are scarce, and the seasonal rains unusually low. Zimbabwe's GDP has declined by over 20% in three years and is still shrinking. Shortages of fuel, food and basic commodities have crippled industry and turned urban workers into hunters and gatherers who must scavenge even for necessities.

Famine now affects nearly two-thirds of Zimbabwe's 12m people, and more hunger looms

Everyone knows the current state of affairs is unsustainable, but Comrade Mugabe, as officials insist he must be called, is not providing any solutions. He is stubbornly sticking to the ruinous fixed exchange rate and negative interest rates that enrich a handful of his cronies and impoverish the country.

Mr Mugabe is not liked. Motorists in a five-lane queue for fuel hooted and jeered his 25-vehicle motorcade as it sped by recently. Soon a truckload of troops returned to beat up those who had dared to insult the president. A new law expressly forbids any denigrating noises or motions being made at the presidential motorcade.

Mr Mugabe can take some comfort from the decision of the England and Wales Cricket Board to go ahead with England's Zimbabwe matches in the World Cup next month, despite the pleas of members of the British government. The team will now pull out, it seems, only if safety is in doubt. With an admission from Harare's mayor that the situation “is ever deteriorating and anything could happen to the cricketers and their fans”, Mr Mugabe's comfort may yet disappear.

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Côte d'Ivoire's peace conference

France got them there

Jan 16th 2003 | PARIS
From The Economist print edition

By military as well as diplomatic means

"SCORE a try for Africa," urged Dominique de Villepin, France's foreign minister, as he welcomed the main players in Côte d'Ivoire's four-month civil war to ten days of talks in Paris that started on January 15th. The leaders of all three rebel groups, as well as of the ruling and opposition parties, were then whisked away to the woodland grounds of France's national rugby training centre. Once there, they were locked away behind closed doors and told to sweat it out for peace.

One notable absentee was Côte d'Ivoire's president, Laurent Gbagbo. Mr Gbagbo, who had earlier expressed his wish to attend the conference, did not give any explanation for his absence, and some believe that he may have been advised to stay at home in order to prevent yet another attempted coup. But even without him, the French were able to hail the presence of all parties to the conflict as a diplomatic victory in itself.

It was a victory made possible only by a sharp increase in the number of French troops—from 700 to 2,500—deployed in their former colony. A week earlier, the French *légionnaires* had showed that they meant business by launching their fiercest riposte so far against a rebel group in the cocoa-growing west, firing 260 mortar shells in less than two hours. The shell-shocked rebels signed a temporary ceasefire for the duration of the talks (an arrangement that the other rebels groups had already agreed to). This opened the way for the arrival of a first contingent of Senegalese troops, as part of a long-awaited West African peacekeeping force.

The French, however, plan to stay on even after the African peacekeepers arrive. Mr de Villepin dismisses accusations of neo-colonialism as nonsense. Their intervention, the French insist, has saved Côte d'Ivoire, a country with the second-richest economy in West Africa, from a total bloodbath. But some of the rebels see France as an interested party rather than a neutral mediator.

"The only thing separating us from taking power in Abidjan [the commercial capital] was the French," groused Guillaume Soro, the leader of the main northern rebel group, which led the armed rebellion on September 19th and proceeded to take the northern half of the country within days. The mere presence of French troops at vital arteries prevented the rebels from advancing south to the capital.

The talks in Paris will partly concentrate on reforming the controversial Ivorian nationality laws, which have left northern Muslims feeling excluded. But an even fiercer debate will focus on whether to hold an early election. Mr Gbagbo, who was elected in October 2000 in an election generally believed to have been flawed, insists that there should be no new poll until the one due in 2005. But all three rebel groups, and the prominent northern opposition leader, Alassane Ouattara, argue that a transitional government, including the rebels, leading to early elections is the only way to a lasting peace.

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Andrew Boyd

A lovely man

Jan 16th 2003
From The Economist print edition

With thanks for helping us to write a bit better

Erudite joker

AMONG the many things he did well, Andrew Boyd excelled at writing about funny things seriously and serious things funnily. In either case, his wit enriched *The Economist* for 37 years.

Take for instance his learned treatise against the way lefthandedness is vilified (a three-page “stroll down Sinister Street”); his extended metaphor comparing Anglo-French relations in the 1950s to two aged colonialist ladies wielding their umbrellas; a survey of Denmark in which every rubric was a quotation from “Hamlet”, and in which he describes the country itself as looking on the map like “something that has fallen from a great height and never been put together again.”

Andrew, who died last week, joined *The Economist* in 1951, after a brave Far Eastern war, and remained here, writing on foreign affairs, until his retirement in 1988. He was briefly foreign editor in 1954 but hated the job so much that the editor of the day, Geoffrey Crowther, was forced to let him slip back into his own skin as a writer of clarity and judgment and fun. His mind was a cornucopia of disregarded facts; his memory of how things really had been was phenomenal. He retired too soon for the good of the paper.

Countless *Economist* hacks were helped, and two or three were stung, by his advice. Gentle with newcomers, generous in passing on his skills, he would puncture pretension and pomposity. He snorted at the way that one ardent young campaigner, when informed of a fact or two, argued equally ardently in the opposite direction. Once asked to edit a misleading piece from the field at the time of the Vietnam war, he acidly refused, remarking that he was not in the business of polishing shit.

His was a humane influence on the paper's policies. Ruth Dudley Edwards in her history of *The Economist*, “The Pursuit of Reason”, records him writing, “Most of us are refugees from refugees. It is not really true that they are ‘forgotten people'. They are, rather, people about whom we would like to forget.”

He continued after his retirement to bring up to date his “Atlas of World Affairs”: an excellent example of concise editorial and graphic thinking. First published in 1957, the tenth edition came out in 1998. And just a month before his death he wrote a letter to a colleague who had published a novel, kindly congratulating him but remarking, also, on a few stylistic infelicities. He would never have committed them himself.

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Germany, France and the European Union

Restarting the Franco-German motor

Jan 16th 2003 | BERLIN, BRUSSELS AND PARIS
From The Economist print edition

The latest Franco-German agreement on the future of Europe causes consternation in Brussels and relief in London

Get article background

IT WILL be a rendezvous laden with history. On January 22nd the entire membership of the Bundestag, Germany's lower house of parliament, will travel to Versailles to reaffirm Franco-German friendship. The last time so many German dignitaries visited the palace en masse was in 1871—to witness Bismarck's proclamation of a German empire following the crushing defeat of France by the Prussians. (And among those present was a young officer, Paul von Hindenburg, who, 62 years later, was to appoint Hitler as chancellor.) In 1919 the Germans returned to Versailles, this time as a defeated nation, to sign a treaty that Hitler later swore to overturn.

But the reason for next week's Franco-German get-together is altogether happier. For it marks the 40th anniversary of the Elysée Treaty, a historic pledge of Franco-German friendship. The treaty's signature in 1963 came just eight days after General de Gaulle, then France's president, first vetoed Britain's bid to join the European Economic Community. It established the idea that France and Germany, above all others, would drive Europe towards integration. Ever since, the Franco-German motor has indeed set the pace, in particular by creating a single currency, the euro. Next week the French and Germans will sign a batch of agreements on closer political co-operation, including occasional joint cabinet meetings, to reassert their partnership's centrality to Europe's future.

Jacques Chirac, France's president, is fond of remarking that the Franco-German relationship is not intended to exclude anyone. It is simply, he says, that without agreement between France and Germany, the European Union cannot work. True enough—but it all depends what you mean by work. The latest Franco-German deal on the Union's constitutional future, stitched together at a dinner chez Mr Chirac at the Elysée Palace on January 14th, seems likely to provide the blueprint for a European constitution currently being debated at an EU convention in Brussels.

It will certainly be pored over at next week's session of the convention. France and Germany have indeed once again pre-empted the decisions of the Union's 13 other governments and given the impetus to make Europe “work”. But the deal is a messy compromise that may well make it harder for the EU to work as an institution.

The problem is that France and Germany have different visions of how power should be wielded within

the EU. The French have argued for a new post of president of the European Council, the EU body which brings together heads of governments. That implies a vision of the EU where European policy is essentially a series of bargains between governments. The Germans, in contrast, have promoted the idea of a more powerful president of the European Commission, the EU's supra-national executive, which regards itself as a European government in embryo.

So, rather than endorse one vision or another, the Franco-German couple has compromised by plumping for both. The council will get a president elected by the heads of governments—for five years or two terms (at most) of two-and-a-half years each. But the commission would henceforth have its president elected by the European Parliament, an idea meant to strengthen his legitimacy—and his power. The fear is that the result will, simply, be confusion—with the two presidents glowering at each other from edifices on opposite sides of the Rue de la Loi in Brussels.

Boo hoo for the federalists?

Joschka Fischer, Germany's foreign minister, made it clear that as a devoted federalist he is less than delighted with the deal. Keen integrationists in Brussels, who had felt in recent weeks that things were moving their way, are also alarmed. Andrew Duff, a prominent member of the convention, calls the latest Franco-German deal “a potentially disastrous recipe for internal confusion and external cacophony”. Many of the smaller EU countries are also uneasy. The “smalls” generally prefer the idea of an EU in which the European Commission calls the shots, fearing that the alternative is a Union of bigger countries stitching up deals between themselves and imposing them on the rest.

The British government, by contrast, is relieved. In recent months a series of Franco-German deals had revived British fears of being sidelined by a Franco-German push for a federal Europe. One such notable deal has delayed reform of Europe's common agricultural policy by several years. Others have laid out ideas for harmonising taxes and for defence co-operation within the EU. German suggestions that the post of president of the commission should be combined with that of president of the council—meaning that the commission's president would chair meetings of national governments—were denounced by a British minister as creating a “kaiser” to preside over Europe.

That France has succeeded in persuading Germany to accept a stand-alone president of the European Council—an idea also eagerly promoted by Britain's Tony Blair—is regarded as a victory in London. The Franco-German proposal to create a European foreign minister also seems acceptable to the British, since this new superminister would be based primarily in the council rather than the commission.

But British relief at not facing a renewed Franco-German federalist cavalry charge may have to be qualified. The French and the Germans have also agreed to introduce majority voting in the making of a common European foreign policy. The French say that, if military force is involved or if a vital national interest is at stake, foreign policy will not be decided by majority vote. So European countries would still go their own way if these rules were to be applied, for instance, to the conflict with Iraq (see article). But the Germans respond that an invocation of national interest could still be overruled by a majority vote of heads of government. Whatever the final arrangement, the drift is towards closer integration.

In the long run, the federalists will comfort themselves with the belief that history and logic will bring them victory in the end. They point out that the creation of a European foreign minister follows the failure of the current arrangement of two jobs—one based in the commission and the other in the council. The creation of two rival European presidents replicates this arrangement. If it fails, the option of uniting the two jobs and creating a “kaiser for Europe” remains. The ghost of Bismarck may still hover over next week's celebrations in Versailles.

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Germany and Iraq

Can a circle be squared?

Jan 16th 2003 | BERLIN
From The Economist print edition

The German chancellor's contortions over Iraq

AFTER Gerhard Schröder's virulently anti-war stance during his successful re-election campaign in the autumn, he is now leaning over backwards as far as he can, short of prompting the downfall of his coalition government, to provide at least passive support for an eventual American-led war against Iraq—while continuing to insist that Germany will not itself take a direct part in any military operation.

Despite strong opposition from his Green partners as well as from several of his own Social Democratic backbenchers, he has quietly affirmed that the United States can have “unrestricted” use of German airspace and that American military bases in Germany must be protected. For their part, the Americans note that the Germans are required to do all that anyway under their existing obligations to NATO.

Mr Schröder has also agreed to provide Israel with defensive Patriot missiles; to let German crews man NATO's AWACS reconnaissance aircraft monitoring Turkey's border with Iraq; and to let reconnaissance vehicles stay in Kuwait, leaving open the possibility that they could give back-up help to American troops there in the event of a chemical or biological attack by Iraq.

And the chancellor has also offered unarmed *Luna* military reconnaissance aircraft to help the United Nations' weapons inspectors in Iraq, despite a German ban on deploying troops outside NATO countries without parliamentary approval. If this offer were accepted, the crews would be provisionally suspended from the German army and would fly over Iraq as civilians.

For all its anti-war rhetoric, Germany endorsed UN Security Council Resolution 1441, which told Saddam Hussein that he had to destroy any weapons of mass destruction—or face serious consequences. Now Germany, which became a (temporary) member of the Security Council on January 1st, has to decide what position to adopt if a second resolution is put forward.

For the moment, Mr Schröder is leaving his options open, saying he cannot decide until he knows the circumstances under which such a vote might take place. But at home he is already being accused of breaking election pledges. Pollsters reckons that three-quarters of Germans are against war with Iraq. Even the conservative opposition, usually strongly behind the Americans, is starting to sound hesitant; some right-wingers are as hostile to the war as the left.

While plainly anxious not to annoy the Americans more than he has done already, Mr Schröder is equally eager to be in tune with France and the rest of the EU. Can that diplomatic circle realistically be squared?

He hopes to avoid being put to the test. The war might yet be averted or the Americans might fight without seeking a further UN mandate. But if a second war-enabling resolution were passed, with French (as well as British) approval, Germany, which has no veto, might well vote in favour.

How, then, would Mr Schröder explain to his compatriots that he had helped to sanction an American-led attack on Iraq while still refusing to let German troops fight, on the grounds that such a war would be wrong?

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France's economy

Persuading the bosses to smile

Jan 16th 2003 | TOURS
From The Economist print edition

France's government is trying to please business

EPA

The bosses say yeah to Seillière

"WHAT we expect from you, prime minister, is that you free all the country's energies and give us a jump start!" And will Jean-Pierre Raffarin oblige Ernest-Antoine Seillière, head of Medef, the body that represents France's bosses, big and small? Of course he will, by lowering taxes, slashing red-tape and promoting innovation—and by declaring: "What I offer you is a reconciliation between the state and business." Cue for several bouts of applause, and finally a standing ovation, from the 1,800 business leaders assembled in Tours this week to re-elect Mr Seillière as their president.

Big deal: a centre-right government is at one with the business establishment. Yet sarcasm is misplaced: believe it or not, Mr Raffarin was the first French prime minister ever to attend an assembly of the nation's bosses. The Socialists' Lionel Jospin spent his five years in office, until he lost it last summer, studiously avoiding them. But so too did conservative predecessors.

Can Mr Raffarin deliver what business wants? As he admitted, in economic terms 2002 was no great vintage. Nor is this year likely to be much better. Arguing that there is no point in being pessimistic, he reckons the economy will grow by 2.5%—but the European Commission forecasts 2%, and Mr Seillière, while hoping for 2%, thinks the outcome could be a mere 1.5%. Meanwhile, the public-sector deficit is already flirting with the 3% limit set by the European Union's stability pact.

Too bad. President Jacques Chirac promised during his campaign for re-election last year that taxes and payroll charges would be cut by some *euro*30 billion ($32 billion) during his five-year term, and last week the government's spokesman, Jean-François Copé, confirmed that France's European commitments would have to be "reconciled with the commitments made to the French people." Since cutting public spending looks virtually impossible—and counter-productive—during a period of slow growth, this leads many to suspect that France will persuade Germany, which has already burst through the 3% barrier, to help cook up a deal to soften the EU's disciplinary rules.

The government's public stance is naturally somewhat different. France, it says, will meet its various commitments by stimulating the kind of growth that will allow both unemployment—stubbornly stable at just over 9% of the workforce—and public spending to fall in tandem. And the method will be the kind of supply-side economics which, as Mr Raffarin noted, kept the American economy growing one percentage point a year faster than France's throughout the 1990s.

Hence the prime minister's list of promises: *euro*3 billion less in business-location taxes and social charges this year; the prospect of lowering overall taxation on business to the EU average within five years; over 18 months, a 6% cut in the income-tax take, with a pledge that the top rate will for the first time be lower than 50%; and a modification of the previous parliament's laws, to make the 35-hour working week more flexible and to make it easier (though not by much) for bosses to hire and fire. Hence, too, the confirmation in Paris by Renaud Dutreil, the minister for small business, that by the end of next month the government will seek parliamentary permission to simplify by decree the tangle of laws and regulations that hamper the creation and running of France's businesses.

Will it work? It is too soon to say. But the fact that a French prime minister had at last acknowledged that businessmen, not governments, create a nation's wealth was enough to keep Mr Seillière and his

members smiling.

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Italy's left

A new leader may be emerging

Jan 16th 2003 | CREMONA
From The Economist print edition

Meet Lucius Quinctius Cofferati

AP

THE memory of somebody on Italy's left seems to have been jogged by the story of Lucius Quinctius Cincinnatus. A Roman general in the fifth century before Christ, he retired to the countryside. One afternoon, while tending his garden, he was asked to come back: the Roman republic needed him. Two-and-a-half millennia later, Italy's divided and dispirited left hopes it has found someone to rally the troops and challenge Silvio Berlusconi's right-wing army at the polls due in 2006.

Sergio Cofferati was born in the countryside near Cremona, north of the river Po, and is not exactly a prominent politician. A rank-and-file member of the ex-communist Democrats of the Left, he has no seat in parliament. Last year, aged 54, he stepped down as head of the biggest trade-union confederation and went back to work for the Pirelli tyre-and-cable factory in Milan. He is certainly no advocate of economic reform. But this white-bearded, soft-spoken, opera-loving, comics-relishing man—called “the Chinese” because of his slanting eyes—has one huge plus: a big following of devoted admirers.

Wherever he goes, Mr Cofferati fills a stadium. In Florence last weekend his mentor Nanni Moretti—a popular film director who says that the current leaders of the left are “bureaucrats who will lead us to defeat for two or three generations”—introduced him as the left's best hope.

His rivals, naturally, do not agree. Massimo D'Alema, a former prime minister for the Democrats of the Left, says that “we don't need a Genghis Khan.” Piero Fassino, their present leader, angrily says that “Cofferati must work for the common cause.” These men are fairly moderate—Blairites, you might say—but have no following. Many Italians associate them with the left's defeat by Mr Berlusconi in 2001. The same applies to Francesco Rutelli, who leads the so-called Margherita (Daisy) group of several centre-left parties.

Mr Cofferati has other advantages. Unlike his rivals, he refuses to negotiate with Mr Berlusconi about proposed constitutional changes, saying the prime minister is not to be trusted. This goes down well with the left-winger in the street. Mr Cofferati also has the backing of the anti-globalisation, no-war-on-Iraq movement, which is strong among the young. This distinguishes him from Mr D'Alema and Mr Rutelli, who backed military action against Serbia over Kosovo and are relatively pro-American. Not least, Romano Prodi, the current president of the European Commission and the man who won the 1996 Italian election, likes Mr Cofferati as much as he dislikes Mr D'Alema.

“A Cofferati-Prodi ticket!” for the next election, cries the left-wing press. But can these two very different men—one a hawkish trade-unionist, the other a bit of a liberal in economics—really get along? Who would be the left's candidate for prime minister? Could they sort out differences over foreign policy, immigration and welfare? Such big questions have yet to be addressed. In any event, the Italian left is delighted to have found its Cincinnatus.

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The Netherlands election

Labour returns from the dead

Jan 16th 2003 | THE HAGUE
From The Economist print edition

The then-dominant party was smashed last year. A new leader is reviving it

THE name is Wouter Bos. He's a miracle-worker. He brings political parties back from the (almost) dead.

His own Labour Party, at least. From 1994, it ruled under the fatherly Wim Kok, in a “purple” coalition with (mainly) the free-market Liberals. Then, last winter, an earthquake hit: Pim Fortuyn, a populist who told voters the country had too many immigrants, too much crime and too many politicians who never listened to ordinary people on such topics or anything else.

In March, a local group led by Mr Fortuyn broke Labour's hold on Rotterdam. In May's general election, his new national party (aided by revulsion at his murder a few days before) took 26 seats in the 150-strong lower house, while Labour, under a new, uncharismatic leader, crashed from 45 to 23. In came a coalition led by the Christian Democrats, who had gained strongly, with the Liberals and the Fortuynists. Labour lay shattered in the mire.

Some recovery was natural. Labour's new leader had quit at once. Then, under a party chairman already elected in 2001 against Mr Kok's preferences, Labour set out to rethink its attitudes to the voters and so to the issues raised by Fortuyn. The new government meanwhile was stumbling, as the Fortuynists quarrelled among themselves and all three allies with each other. In October, it collapsed. Even so, few foresaw more than a modest revival for Labour in the election called for January 22nd.

Today, opinion polls put Labour on the Christian Democrats' heels; just ahead, says one. Last week's issue was whether the outgoing prime minister, Jan Peter Balkenende, would aim for a new coalition with the Liberals (as he would prefer) or with rapidly rising Labour. This week, the media were asking who is Labour's candidate for the prime ministership itself.

How come? The short answer is Mr Bos, leader since November of Labour's election list. A former Shell manager, he entered parliament, aged 34, only in 1998, becoming a junior minister in 2000 at finance, under today's Liberal leader, Gerrit Zalm. But it is not only his face that is new. He won first place on the party list in a true internal election, a novelty for Labour. He has charisma, but modesty too. He listens to the voters, and has swung Labour their way, notably on crime and immigration.

The Fortuynists' disarray has cut their own throats (they may get half a dozen seats, say pollsters). But Mr Bos has twisted the knife. When he went on the stump in one of Rotterdam's most Fortuynist areas, it was plain that working-class voters were swinging back to Labour in droves.

The long answer is more complex. By Dutch standards, this has been a snap election, even more than usual dominated by the instant effects of television. Dutch politicians, unlike some, are happy to debate with each other on the box, and in the early debates Mr Bos did notably better than Mr Balkenende. Labour's poll ratings swiftly shot up; it owes as much to the medium as the man or his message.

But the message has mattered too. Most parties, reflecting public opinion, have stolen the Fortuynists' clothes, if not on immigration as such, on the need to integrate the newcomers with society. But there are other, and growing, public concerns.

The economy is one; the Dutch have done well so far, but the outlook is grey. Health care is another. It is short of cash. So encourage private medicine? And/or ram up premiums to the public system—and if so, leave these the same for all, with mere promises of aid for poor families, as is now being done? Or link premiums overtly to income? Schools: leave them, as many now have to, to supplement state funds with “voluntary” contributions from parents? The sums are small to a middle-class family; they hurt a

poor one with four kids.

On these and other issues, Mr Bos, once on Labour's right, has been talking more left of late. Some figures suggest why. Was there really a rush to the right last May, as outsiders supposed? No: the Liberals lost nearly as badly as Labour. Who did well? The Fortuynists and Christian Democrats, yes, but also the tiny Socialist Party. From five seats it rose to nine. Polls say it may now reach 14-plus. Maybe not. But free-marketry has not triumphed yet.

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The Czech presidency

After you, Vaclav

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From The Economist print edition

Vaclav Havel leaves much behind him, but no heir

IT REALLY is the end of an era. Vaclav Havel retires on February 2nd, after ten years as the Czechs' president and an earlier three as president of what was then Czechoslovakia. A playwright, and the country's most famous dissident under the Communists, his exit breaks a last link with the revolutions of 1989, which ended totalitarian rule across the continent in a few stunning months.

When he first took office in the revolution's heady aftermath, his country's political and economic future looked shaky. Nobody knew how the Czechs would adapt to capitalism; what would happen to the still-powerful secret police; and whether the then Soviet Union would not try to keep some grip on Central Europe. Twelve years on, such fears seem fanciful. Now his country is a solid member of NATO and should join the European Union next year.

No less miraculous is Mr Havel's own staying power. He has survived Czechoslovakia's grumpy but peaceful divorce, the Czech economy's collapse and revival, and his own ill health. Elsewhere, most of his brave counterparts from the resistance era, such as Solidarity's hero, Lech Walesa, proved hapless in office. Mr Havel, by contrast, blossomed into a statesman. Some say his stature matches that of Czechoslovakia's revered founding president, Tomas Masaryk.

The big success was abroad. Mr Havel's stature helped win NATO and EU membership. He has been a stalwart western ally, sending Czech servicemen to Kosovo and Afghanistan, and brushing off terrorist threats to disrupt a grand NATO summit in Prague, the Czechs' capital, last autumn. He has also spoken up admirably for his country's beleaguered minority of Gypsies.

Yet, at home, many Czechs are unenthusiastic. His manner is awkward. Too often he comes over as too remote, too intellectual. His speeches about civil society can be rambling and waffly; they strike no chord in the grimy decrepit industrial towns of northern Bohemia. Poor Czechs are too miserable to hear him; the rich ones too busy and greedy.

The biggest criticism of Mr Havel is the lack of a political heir or legacy. His mainly ceremonial job gave him little chance to build a political base; no party stands clearly for his blend of humanitarian, liberal, communitarian ideas.

Instead, parliament on January 15th failed, in two rounds of voting, to pick a successor from a rum bunch of presidential hopefuls. Vaclav Klaus, a former prime minister who despises Mr Havel almost as much as his ideas, got most votes in the lower house but not enough in both houses to clinch the job. The senate preferred Mr Havel's friend, Petr Pithart, an old dissident chum, whose standing has been damaged by years of political shilly-shallying. Jaroslav Bures, a former justice minister who was the ruling Social Democrats's first choice, was knocked out.

That opens the door for a showdown between Mr Klaus and another former prime minister, the jovial Milos Zeman, who will throw his hat into the ring for the next bout, starting in a week or so. His liking for a smoke, banter and a drink or three would go down well in the pubs at home. But, quite unlike Mr Havel, he could well prove an embarrassment abroad. Hardly surprising that the Czech anarchists, who once teased the Communists side by side with Mr Havel, are now calling for a return to monarchy.

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Charlemagne

The magic of membership

Jan 16th 2003
From The Economist print edition

The lure of the European Union may yet settle Cyprus

Get article background

BY MAY 2004 the Ledra checkpoint between Cyprus's ethnically Greek and Turkish parts could become the European Union's newest frontier. The crossing is an eerie couple of hundred yards of no-man's-land. To get from one side to the other, you walk past coils of barbed wire, pill-boxes, gun-toting soldiers and virulent propaganda posters. That such a place, redolent of Berlin's Checkpoint Charlie, might mark the border of the new EU is ironic. The Union's enlargement has been promoted under the slogan of "reuniting Europe". But while enlargement will indeed bury the era when Europe was divided into eastern and western blocks, it will—if it includes only the Greek part of Cyprus—once again bring a divided country into the Union.

Almost 30 years after Turkey occupied a slab of northern Cyprus in response to a coup on the Greek side, the island is still partitioned between the internationally recognised Republic of Cyprus (the Greek-Cypriot bit) and the Turkish Republic of Northern Cyprus, recognised only by Turkey. Many of the EU's current members had deep reservations about inviting Greek Cyprus to join their club. They feared that such a move would provoke a diplomatic or even military crisis with Turkey, and pressed ahead only because Greece threatened to veto the whole enlargement package if its Cypriot brethren were kept out, thereby blocking the European ambitions of Poland and others in Central Europe. As negotiations edged forward, diplomats painted lurid scenarios of what might then happen over Cyprus. The EU's official line—that its magical abilities to spread peace and stability wherever it goes could actually be the catalyst for a Cyprus settlement—looked like optimists' moonshine.

Abracadabra in Brussels?

But events may yet vindicate the optimists. Last month the EU formally agreed to admit Cyprus and nine other candidates in 2004. The Turks did not explode in rage. True, despite last-ditch efforts, there is still no clear-cut agreement on the UN's latest plan, which would have let the EU realise its fondest hope and admit a freshly reunited island. But the pressure to reach such a deal is still mounting. The UN, backed by the EU, has set a new deadline of February 28th. Given the legal and political complexities, it will probably be missed. But the momentum to clinch a deal pretty soon is unmistakable—and is largely due to the economic and political lure of joining the EU.

The Turkish-Cypriot government, in particular its 78-year-old leader, Rauf Denktash, is still resisting the UN plan, which, it says, will prompt a mass displacement of Turkish-Cypriots and the "Hellenisation" of the island. But Mr Denktash is coming under unprecedented pressure, both from his own people in northern Cyprus and from the new government in Turkey itself. Previous ones have invariably backed northern Cyprus to the hilt, for patriotic and strategic reasons. But the new one, led by Recep Tayyip Erdogan, is clearly worried that a failure to achieve peace in Cyprus will end up blocking Turkey's own ambitions to join the EU. Why, mutter some Turkish diplomats, should 200,000 or so people in northern Cyprus scupper the European ambitions of 69m-plus Turks?

That question becomes even more pointed with the growing evidence that the Turkish-Cypriots themselves no longer applaud Mr Denktash's obduracy. On January 14th, as many as 50,000 of them demonstrated in favour of a settlement based on the UN's plan, the second such display in a month. Mr Denktash's government is rattled. Drawing deeply on his cigarette, Tahsin Ertugruloglu, the Turkish-Cypriots' foreign minister, leans over to a foreign reporter. "I don't want to sound conspiratorial," he says, "but these demonstrators are being manipulated by foreign powers."

Over in the offices of *Kibris*, the statelet's main newspaper, they disagree. Suleyman Erguclu, its editor, was a Denktash loyalist for many years. But, he says, the grand old man lost his—and most people's—support in the Turkish part of the island when he failed to address the UN plan seriously.

Turkish-Cypriots see the Greek-Cypriots' greater prosperity and opportunities, and realise that the gap would only widen if Greek Cyprus joined the Union without them. They fear that, if they do not grab the chance of a settlement now, it may slip away, especially as the Greek-Cypriots may well be tempted to harden their terms once they are already inside the club. Asked what future there could be for a northern Cyprus left outside it, Mr Erguclu replies bleakly: “Total darkness.”

Come on in!

The wider impact of a Cyprus settlement on Europe would be enormous. It could open the door to lasting reconciliation between Turkey and Greece, in the corner of the world where Christian Europe rubs up against the Islamic world. It is not just the new Turkish government that seems eager to grasp this chance. Greece is just as keen. Instead of seeing EU membership for Greek Cyprus only as a chance to humiliate or thwart Turkey, the Greek government is avoiding triumphalism and has become one of the most ardent advocates of eventual Turkish membership of the EU. George Papandreou, the Greek foreign minister, sees Franco-German reconciliation within the EU as a model for Greece and Turkey.

Of course, a great deal must still happen before the EU can claim to have notched up such a peacemaking triumph. Turkey's generals are a conservative bunch and may yet veto any effort by Mr Erdogan's government to squeeze Mr Denktash into making a deal. All the same, the fact that such an outcome is now conceivable is testimony to how the prospect of EU membership can mould countries' behaviour. EU officials sometimes lament that their Union has only one cudgel in its diplomatic bag: the offer of membership. Maybe. But it is one hell of a cudgel.

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Child pornography

Buried by a pile of porn

Jan 16th 2003
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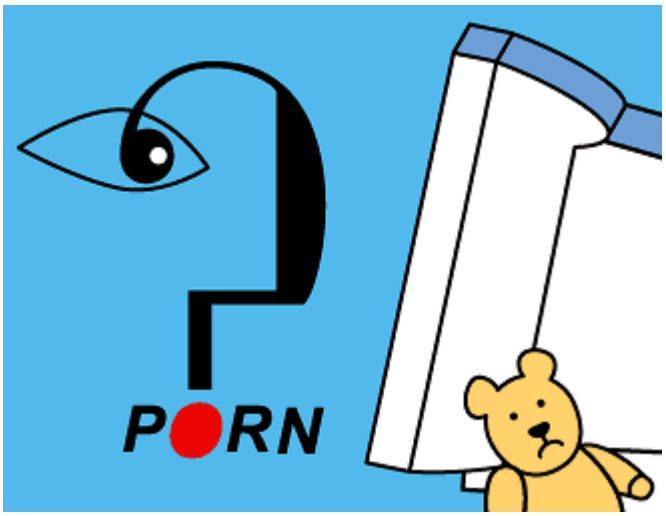

The hunt for consumers of child pornography is overwhelming police

Get article background

"THIS group is for people who love kids. You can post any type of messages you like or any type of pics and vids you like too." The thousands of men who responded to this invitation to join Candyman, a Yahoo membership site, are now the subjects of the largest-ever worldwide criminal investigation into paedophilia.

The fall-out from the FBI investigation of Candyman and a Texas-based subscription website called Landslide has overwhelmed Britain's police. More than a year ago, the Americans provided them with credit-card details of the 7,272 Britons who paid a $29.95 monthly subscription to join Landslide, which provided an entry point to child porn websites all over the world. But though 1,300 search warrants have been issued and 1,200 arrests made, only a handful of cases have so far been brought. Police forces are reluctant to disclose how many they have charged: Thames Valley police say that doing so could jeopardise future inquiries. But the real reason why police are not giving out a number is the embarrassing likelihood that most of those on the list will be let off with a caution.

Operation Ore, as the British effort is known, has been dogged by a lack of resources. Though the law makes possession of child pornography, including computer images, subject to a maximum sentence of five years, proving the offence is difficult. To do a full forensic examination of a computer takes up to three months. Companies specialising in the work say that, at the present rate, it would take from five to ten years to process all the suspect computers.

When the inquiry began, the police divided the suspects into three groups. The highest priority for investigation was given to anyone with access to children, with a previous conviction or who was on the sex offender register. The second category was those in a position of authority, while the lowest priority was given to the largest group—those not regarded as posing a particular risk to children.

Those now being pulled in come from categories one and two. They include judges, teachers, barristers, solicitors, university lecturers, hospital consultants, a deputy prison governor, 50 policemen (including two involved in the investigation into the murders of two girls in Soham last year) and, it is said, two senior Labour MPs. Fewer than 5% were previously known to the police. The lives of any who are named as suspects, whether they are innocent or guilty, will be ruined. Already, there have been two suicides.

Each day more names are dribbling out, sometimes even before a search warrant has been issued or an arrest made. And the police have not yet started on category three.

Some of the leaks are part of a long and dishonourable tradition of a few crooked policemen selling information to tabloid papers. But others are the result of frustration with the slow pace of the investigation. Harry Fletcher, assistant general secretary of the National Association of Probation Officers, said that the leaks were disgraceful whatever the motive. “It hampers individuals' ability to get a fair trial.”

The government last month announced an extra £500,000 ($800,000) to fund the inquiry. That won't go far. The former head of the Metropolitan Police's Obscene Publications Branch, Michael Hames, says that millions more would be needed to make a difference. According to John Carr, an adviser to a children's charity, NCH, and a member of the government's internet task force on child protection, such is the backlog of work that there is often a six-month delay in examining suspect computers.

And there's a lot more to come. Interpol has recently been told that another large American inquiry will shortly become public. It will provide police with details of thousands of British subscribers to a website containing images of children as young as four. Carole Howlett, deputy assistant commissioner of the Metropolitan Police, has admitted that there is a danger of the problem escalating out of control. Child protection, she says, has to be a higher priority for the government.

The difficulties facing the police in bringing prosecutions are leading some of those concerned with child protection to advocate a lower threshold for conviction. Debra Shipley, Labour MP for Stourbridge, who has been pressing the government for more resources, says the law should be changed to make it an offence to use a credit card to buy child pornography: the police could then prosecute on the basis of credit-card details, and would not have to examine suspects' computers.

A less contentious approach is to concentrate on the distributors of child pornography. Credit-card companies are meeting with law enforcement officials in Washington this week to discuss ways of putting the child porn sites out of business. Visa says it is already scanning thousands of sites every day. Given determined action by the card companies and internet service providers, child porn sites should find it difficult to operate openly. The 1,335-year sentence handed out to Thomas Reedy, who set up the Texas site where this operation started, is also a useful warning that the risks of this particular trade may outweigh its rewards.

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Terror

Raids and wrongs

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The war on terror at home has claimed its first casualty—a policeman

KEEPING suspected terrorists away from lethal weapons is generally a sensible part of arresting them. But when a large squad of police, immigration officials and spooks burst into a flat in Manchester on January 14th, aiming to arrest the occupants and search the place for chemical warfare agents, this, somehow, didn't happen. After an hour, one of the three Algerian men found in the flat broke free and grabbed a large kitchen knife. After a fierce struggle, Stephen Oakes, a Special Branch officer, was stabbed in the chest and died shortly afterwards. Four other policemen were hurt, one of them seriously.

The immediate questions are about how the operation was run. The first officers to enter the flat wore special body armour. They had gone by the time the attack happened. Mr Oakes, a plain-clothes copper who piled in to help his colleagues, had no protection. None of the suspects was handcuffed. It was lucky, in retrospect, that there was only a knife to hand, and not a phial of anthrax or nerve gas. As the police try to round up the hundreds of al-Qaeda suspects believed to be at large in Britain, this sort of thing is all too likely to happen again.

The bigger questions are about national security. The suspects arrested in last week's raid, of a flat in north London that had been used to manufacture ricin, a deadly poison, were asylum-seekers, mostly from Algeria. One of the men in this week's raid was also an Algerian. The French authorities have been complaining for years that dangerous North African extremists deported from France find it far too easy to come to Britain.

The war on terror is sharpening the government's worries about the failure of its immigration policy. It is not just that people gain asylum from countries where there is no political persecution (like Lithuania); nor that deserving cases from horrid places (like Zimbabwe) are turned down. Too few unsuccessful claimants are deported. Those that know the system work it shamelessly. Most worryingly, people are clearly using the asylum laws as a way to enter the country and then plan mayhem (and, maybe, wreak it too).

One practical suggestion now gaining ground is to merge the three outfits dealing with border control—the police, Customs and Excise, and the Immigration Service. Their bad co-ordination certainly makes things dangerously easy for terrorists. Another good idea, from Oliver Letwin, the shadow home secretary, is security screening for all asylum-seekers.

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Tabloid justice

Donkey bites judge

Jan 16th 2003
From The Economist print edition

The tabloid press is lambasting top law officers over crime. Quite funnily

IT IS hard to think of another country in which the bestselling newspaper would send a reporter disguised as a burglar (complete with bag labelled “swag”) to test security at the home of the top judge, who is thought to be soft on sentencing such criminals. A few days earlier, the same paper, the *Sun*, was so incensed by remarks from the country's top law officer, Lord Irvine, that it sent a donkey, complete with lawyer's wig, to deliver its protest.

There are some serious points here. People are worried about crime (offences involving guns are rising sharply, although burglary is, according to the statistics, dropping slightly) and angry that top law officers do not appear to care. The police seem in many cases to have become little more than insurance clerks, responding slowly or not at all to break-ins. The criminal justice system, by the government's own admission, functions poorly. Of every 100 recorded crimes, only 23 are cleared up, and only six result in a conviction.

Not that locking people up works very well in Britain. Prisons are too overcrowded for the prison service to do much to encourage criminals to reform. Lord Irvine's view is that prison should be a last resort, and that it is better to sentence first-time and non-violent burglars to community service (picking up litter and suchlike), than to send them on a short course in crime school.

But such criminological niceties are muffled when the wig-wearers start talking. It is not just the pedantic Lord Irvine (who uses arcane words such as “nugatory” when trying to get his message across). Lord Woolf, the top judge, has had to make three attempts to explain new rules on sentencing burglars. These are blamed for a judge's recent decision to allow a burglar with 51 previous convictions to stay out of jail to help his new career as a (very bad) poet.

All this means open season for the tabloids, and especially the *Sun*, which has adorned the debate with headlines such as “Up Eeyore's” and “The lord's an ass”; has called Lord Irvine a “pompous jackass”; and said his “pinstriped backside” needed a “great big kick”. The fact that the country's top legal eagles live in well-guarded eyries far from crime-ridden areas provides more ammunition. Not wanting to be left out, a “senior government figure” (usually code for Downing Street) dismissed the two wig-wearers as “muddled old codgers”.

Will it change anything? Few contest the need to reform the demoralised, bureaucracy-plagued police and the clogged, badly run courts. Anything that adds urgency will be good. The danger is that sensible ideas about alternatives to prison may be lost in the enjoyable hullaballoo—which the *Sun*'s newly appointed editor, an inventive Sorbonne graduate called Rebekah Wade, shows every sign of raising to new heights. Or would that be depths?

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Financing public investment

Low marks for PFI

Jan 16th 2003
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A bad report for the government's favourite method of public investment

THE City of London made a packet exporting the British government's pioneering privatisation programme to the rest of the world. Now it hopes to do the same with another British government innovation—the private financing of public investment. Privatisation, which gingered up the performance of utilities, eventually became acceptable even to the sceptical British. But PFI remains controversial, not least because it allows cash-strapped finance ministers to keep expensive public investment off the books.

The consortia of private companies that build and then maintain public works such as roads and hospitals raise the capital initially in the private markets. This borrowing, together with the other services they provide, is then repaid by the government over contracts lasting 25 to 30 years. Since there is no economic gain from private as opposed to public financing, the case for PFI rests on it delivering value for money. This will happen if greater financial discipline and the continuing involvement of the private consortia in providing ancillary services spur efficiency in construction and innovation in design.

One of the main areas where PFI is now being used is in schools. An investment programme worth £2.4 billion ($3.8 billion) is under way to rebuild and refurbish more than 500 schools through PFI. It is the only game in town, say the local education authorities responsible for procurement.

So presumably the case for PFI is overwhelming? Not so, finds the Audit Commission, a watchdog of local authorities in England and Wales. The commission compared some of the first schools built through PFI with those built with traditional public finance. The PFI schools were no cheaper and their quality was poorer. They were less satisfactory on a number of counts, such as temperature control, noisiness and general architectural merit. They were also more likely to be expensive to maintain in the long term, even though PFI is supposed to cut maintenance costs.

These findings fit in with other analyses of PFI which show that its effectiveness varies across the various forms of public procurement. In roads and prisons, it does appear to have delivered value for money, whereas in hospitals it has made little difference. Much depends upon how substantial the role of the private sector is in the subsequent provision of services. That role is likely to be more limited than was first envisaged because of government concessions to union demands that workers transferred from the public to the private sector under PFI deals should retain their existing pay and conditions. The result will be to rob managers of the incentives they need to encourage more flexible working. If the private sector's engagement is confined to servicing maintenance contracts, little will be gained.

The Audit Commission's report will do nothing to assuage the many critics of PFI within Labour's own ranks, which inspired a rare rebellion at last year's party conference. However, ministers ignored that vote then and will not draw back now from their love affair with this murky form of public procurement. The device is far too useful, especially now that the Treasury is running an embarrassingly large budget deficit. The bill for PFI can be presented to future taxpayers.

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Imported plagues

Red in tooth and claw

Jan 16th 2003 | EDINBURGH
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The dark side of globalisation

GLOBAL warming may be one reason that new species move to Britain, often with nasty consequences for indigenous species. But changing trade rules and exotic public tastes may be having a bigger impact on Britain's fauna and flora.

The destruction caused by mink, a fur-farming import now widespread thanks to escapes and misguided releases, is well known. As a result of its depredations, the native water vole is thought to be extinct in North Yorkshire and getting rarer in the south-west and the Thames river basin.

Less known is the havoc under water. The pike-perch (zander), an eastern European predatory fish, was introduced into Norfolk in 1963 and has now spread into the Midlands. Conservationists hate it, because it eats native fish voraciously, hunting in packs, but anglers are divided. Last year British Waterways tried to clear it out of their canals to preserve income from fishing clubs. But some anglers prize its fighting qualities.

The Wels catfish, another continental predator imported for its angling qualities, is less of a problem. Although it grows to huge sizes, it is a slow breeder. The American bullfrog, however, is another story. It devours smaller British frogs and even ducklings, and is a fast multiplier. Some 7,000 bullfrogs, thought to have descended from a pair of released pets, were scooped from just one pond in Sussex two years ago. Thankfully, its size and distinctive call (more of a moo than a croak) makes it relatively easy to control.

Much more pernicious is imported disease. The incidence of spring viraemia, fatal to British carp, rose sharply after European Union rules relaxed the import regime in 1993. Infection also threatens Britain's white-clawed crayfish. The culprit is an American variant, brought over in the 1970s by fish farms. It is prized by restaurants, but is also an adept escapologist—and disease carrier.

Conservationists are thinking more globally too. Scottish Natural Heritage, a government-appointed agency, has appointed Sugoto Roy, an ecological veteran of Mauritius's campaign to control the Indian mongoose, to wage war on the mink that are munching up the wildlife in the Hebrides. And it is not all bad news. After all, the doughty potato, as well as many of the country's best loved garden plants, were foreign imports once.

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Talent in the public sector

Finding people to run the country

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The pay is better than it was. The bureaucracy is worse

FEW cabinet ministers have ever run anything bigger than a middling law practice, and most permanent secretaries have spent their lives policy-wonking, not managing large organisations. But these days they all understand the importance of improving the way the public services are run.

Hence the government's policy of parachuting private-sector management teams into floundering schools, local authorities, hospitals and prisons. Hence its passion for publishing league tables and setting up inspection bodies. And hence its hunt for ex-company bosses to run Whitehall agencies. Thus Kevin Bond, an ex-policeman who became managing director of Yorkshire Water, runs the new Police Standards Unit; Peter Gershon, formerly of Marconi, runs the Office of Government Commerce; and Britain's highest-earning civil servant, Richard Granger, is being paid £250,000 a year to sort out the computer systems of the National Health Service.

If a private company has mediocre managers, its customers can usually push off to its competitors. If a hospital, police force or social-work department is a mess, its “customers” are stuck. The Audit Commission, which monitors management in local government and the health service, has produced a number of blistering accounts of mismanagement in local-authority social-services departments, which seem to be the worst run of all public services. Bad management there can kill children, as a succession of judicial reports has shown.

But managing the public sector is in many ways harder than managing the private sector. The goals are more complex: there is no simple bottom line, there are no prices to measure customers' preferences, and indeed there is often no customer apart from the politicians. Success often means wringing as much as possible from inadequate capital assets: the British public sector, argues Tony Travers of the London School of Economics, is typically trying to deliver continental European levels of service with American levels of tax. Media interest is greater. And the tools are weaker. Bad teachers, policemen and civil servants are still hard to sack. Staff are more likely to belong to trade unions: 59% of public-sector workers do compared with only 19% in the private sector. Without paying customers or competition to harry them, public-sector workforces are often producer-oriented and conservative.

Not surprisingly, the public sector includes patches of appalling mismanagement, on a scale that would drive any business into bankruptcy. Often it is at least partly the work of politicians rather than entirely that of bureaucrats. In the London borough of Brent, for example, Audit Commission inspectors found a department painfully recovering from a politically driven reorganisation in the 1990s that divided it into an extraordinary 21 business units. Even now, many staff in the children's department want to leave, and more than half the staff in some social-work teams are hired from agencies on expensive temporary contracts. In Cardiff, middle managers suffer constant destabilising change, posts sit unfilled for months on end and operational managers have no control over their budgets. “I can't even buy a leaflet rack,” said one.

Attracting good public-sector managers is about to become even harder, because of the speed with which the public-sector workforce is ageing (see article), a problem made worse by managers who won't move. According to a forthcoming study by Ian Kessler of Templeton College, Oxford, for SOLACE, the body that represents senior managers in local government, voluntary turnover in the two top layers below chief executive averages 7% a year, compared with 12% lower down the organisation. Such low turnover is likely to breed a cosy culture of ageing executives who block the advance of younger talent.

The way public-sector managers are rewarded discourages mobility. In the middle ranks, outside hotspots such as London, the south-east and Bristol, the rewards are often not out of line with those for

comparable private-sector jobs, if pensions, benefits and holidays are all added in, and have recently been rising in relative terms as private-sector pay has stalled. Public-sector pensions are invariably linked to final salaries (which encourages people to stay put); private-sector ones are increasingly glorified savings accounts. Private-sector managers often lose their jobs; public-sector ones are almost impossible to sack. Both these attractions probably appeal more to older workers than to young high fliers.

The way public-sector managers are rewarded creates other problems, too. First, pay varies little from one part of the country to another. A salary that seems lavish in the north-west barely pays for a bedsit in London. But top public-sector management jobs are probably more concentrated in the south-east than the rest of the country. So management shortages that are dire in the south (for people to run Value-Added Tax collection for Customs & Excise, say) are unknown in the north.

Second, pay for some skills, mostly those where it is relatively easy to move across into the private sector, has not been high enough to keep good people. This is a particular problem with finance and information technology, although staff in both areas have recently become easier to find as the private sector has grown less secure. The median basic pay of the finance director at a largish leisure-industry company is £157,670, with another £30,000 in bonuses, according to Incomes Data Services, a consultancy. Basic pay for the equivalent job at a National Health Service Trust is £70,000, or less than half as much, with another £1,200 in extras. And finance directors are the highest paid executives in health-service trusts, apart from chief executives, who even in the top quartile only just squeak over £100,000 a year.

Third, the higher you go up the public sector, the larger the disparity (see chart). At the very top, despite new performance-related bonuses that will sharply increase potential earnings of the highest earners, public servants are still much worse paid than their private-sector equivalents. The director-general of the Prison Service, a body employing 44,000 staff, earns a mere £130,000 a year, including performance pay and bonuses; the boss of Leeds City Council, with 32,000 employees, only £144,000; the vice-chancellor of Oxford University, with 16,500 students to worry about, £117,000. Even a knighthood and an inflation-proof pension hardly makes such compensation a glittering reward, especially when set beside the hundreds of thousands of pounds that chief executives of comparable companies routinely stash away.

It isn't just the money

However, pay is only one obstacle to public-sector recruitment, and not necessarily the most important one. A recent Audit Commission study of retention and recruitment found that people did not cite the level of pay as the principal reason for leaving a job in the public services. Half of the former employees said that bureaucracy and paperwork were the main reasons why they left; and many added that they were driven out by an excess of targets. The incessant drive to measure performance—part of the government's attempt to introduce what it sees as private-sector management disciplines into the public sector—emerges as one of the main causes of excessive bureaucracy and resentful workers.

Not that all the paperwork is the politicians' fault. One lawyer who worked on an inquiry into a mismanaged social-work department speaks of the “endless mind-boggling documentation treated as though it were an end in itself, side by side with a failure to focus on what's happening on the ground...a 200-page protocol circulated for three months and approved by 18 managers even though those supposed to read it couldn't or wouldn't do so”. A culture of paperwork encourages concentration on process rather than output.

Ultimately, removing the bureaucratic obstacles that seem to drive so many good managers away means reversing two trends. One is the drive to centralise in Whitehall control over the public sector, which has gained pace in the past couple of decades. The other is the extension of public accountability, which is often at the expense of flexibility. Good managers work best with a considerable measure of autonomy. The chief executive of a successful subsidiary of a private company is largely left to get on with the job, subject to a few key performance measures. Concentrating on setting those goals and then standing back is even more important than paying a decent rate for the job.

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Ageing public-sector workers

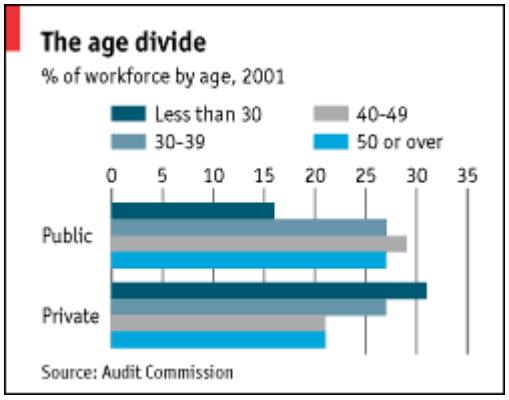
Older and gloomier

Jan 16th 2003
From The Economist print edition

An ageing workforce threatens Labour's hopes of better public services

OF THE many differences between the public and private sectors, one of the most important often goes unnoticed: public-sector workers are quite a bit older than those in the private sector. Some 27% of the public-sector workforce are aged 50 or more, compared with 21% in the private sector. A further 29% of public-sector workers are in their forties, compared with 21% in the private sector. Just as strikingly, only 16% of public-sector workers are under 30, compared with 31% in the private sector.

Why do the young shy away from the public sector? Partly because it has a less dynamic image, and partly because of financial stringency in the past. After expanding in the 1960s and 1970s, the public sector entered a long period of retrenchment. As budgets got tighter, managers tried to save money by freezing recruitment.



Whatever short-term sense this policy might have made, it now looks like long-term folly. There is nothing necessarily wrong with having more older workers who are generally every bit as good as younger employees. The problem for the public sector is that so many of its workers are likely to retire soon, the more so since most public-sector workers can retire at 60, and in many cases even earlier, on a good final-salary pension.

The problem is acute in health, the government's main priority in improving the public services. The NHS is dogged by staff shortages. Britain has fewer doctors per head of population than other rich countries and is frantically trying to train more and to recruit from abroad. But one in three GPs is over 50 and a wave of GPs recruited from India, Pakistan, Bangladesh and Sri Lanka in the 1970s is due to retire in the next five years.

The number of nurses retiring will also rise sharply. Nurses working for the NHS before March 1995 can retire at 55 without losing any money for receiving their pension five years early. Already, a third of NHS nurses are over 45. By 2005 the number retiring each year is expected to double to over 10,000, according to the King's Fund, a health-policy think-tank.

If public-sector workers really enjoyed their jobs, they might be willing to continue working. Instead, they have been getting more and more unhappy. For example, GPs surveyed in 2001 were much less satisfied with their jobs than in 1998, according to an analysis published in the *British Medical Journal* on January 4th. This was the main reason why the proportion of GPs intending to quit within the next five years rose from 14% in 1998 to 22% in 2001.

The government makes much of its efforts to recruit more staff. But what will matter more in the years ahead is whether it can keep more of its older workers working. It will, by the sound of it, be a struggle.

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Bagehot

Crisis? What crisis?

Jan 16th 2003
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Will Iraq destroy Tony Blair? Quite a lot of people think so, but not the prime minister

TONY BLAIR got a respectful hearing when he addressed Labour MPs on Iraq this week. But the mood in the parliamentary party is febrile. The cabinet is divided and there is hardly an MP who does not admit to “deep anxiety”. In the tea-rooms of the House of Commons the “S” word (Suez) is whispered. There is a growing belief that the prime minister, having chosen his course in defiance of party sentiment and wider public opinion, is more vulnerable than ever before.

Across the country, Labour party supporters are said to be tearing up their membership cards in disgust. A newspaper survey of Labour constituency chairmen reveals that nearly 80% of them “vehemently” oppose sending British forces into action without the explicit backing of the United Nations. The bishops of the Church of England, rarely united on anything, are unanimous in their conviction that Iraq poses no threat to Britain and, thus, a war against it cannot be deemed just.

So is Mr Blair a lonely and embattled figure facing the greatest crisis of his political career? There are many people, including a good few in the Labour Party who have never taken Mr Blair to their hearts, who hope so. But to look at Mr Blair is to know that he thinks otherwise. For the prime minister has a version of how events will unfold that he finds more plausible than his critics' apocalyptic scenarios.

Nobody disputes the set of circumstances that would pitch Mr Blair into real political trouble at home. If weapons inspectors found no new evidence of non-compliance, America decided to invade against the wishes of other Security Council members and Mr Blair committed British forces to fight alongside America, that would go down very badly indeed. Mr Blair would survive if the war was quick and victory celebrated by rejoicing on the streets of Baghdad. But if the war was long and messy, he might be finished.

If Mr Blair thought that any of this was probable, he would find it very difficult to look as calm as he does. How is it, then, that he sees things so differently from most of his party?

Mostly, it is because of the determination in Britain (not just the Labour Party) to cling to the idea, in the face of much evidence to the contrary, that President Bush is a trigger-happy Texan who shoots before he thinks. However gross this caricature may be, it persists and is most cherished, paradoxically, by people who think themselves politically sophisticated.

According to this view, Mr Bush was persuaded by Mr Blair and Colin Powell, America's secretary of state,

to go to the UN last year against his bellicose instincts only because the build-up of American invasion forces still had some way to go. Given that enough men and equipment will soon have been gathered in the region to satisfy even the most cautious of American generals, such critics assume that Mr Bush will call time on the weapons inspectors when Hans Blix, the chief inspector, presents his progress report on January 27th, declare the Iraqis to be in “material breach” for failing to prove their innocence, and do what he was always going to do before the desert gets too hot to fight in.

Mr Blair, who, it was announced this week, will meet Mr Bush at a summit at Camp David at the end of the month, thinks this is nonsense. He insists that January 27th will not mark the beginning of the countdown to war. Mr Bush, he believes, understands perfectly well the need to allow the inspectors enough time to do their job thoroughly and, with American opinion showing increasing signs of nervousness about military engagement (see article), has every incentive to want them to succeed in their quest.

Moreover, it is only in the last few days that Mr Blix's team has reached full strength and received the helicopters it needs to make surprise inspections. Most crucially, there are now secure communications, allowing sensitive intelligence to be passed to Mr Blix without alerting the Iraqis. While Donald Rumsfeld, America's defence secretary, and Dick Cheney, the vice-president, may chafe, Mr Blair believes that the cannier Mr Bush is prepared to stick with the process for a bit longer. The prime minister is therefore quite confident (more so than he can say) that the weapons inspectors will find enough evidence of continuing Iraqi weapons programmes to satisfy both public opinion and the Security Council that Saddam Hussein has flagrantly defied the terms of resolution 1441.

Whose timetable?

Nor does Mr Blair accept that the momentum to war is as inexorable as some think. American and British forces may be ready to fight by the end of next month, but this is not August 1914, when the inviolability of train timetables supposedly made mobilisation unstoppable. Just as it proved perfectly possible to fight a war during the Afghan winter, the grim warnings of armchair generals notwithstanding, so the Iraqi summer need not be an obstacle. Superior technology makes the Americans quite capable of fighting during the cool of night.

In which case, why is Mr Blair so reluctant to say the one thing that his party longs to hear—that the tanks will not roll until a new and specific UN resolution sanctioning force is passed? Kosovo, where NATO acted without such a resolution because of the certainty of a Russian veto, is part of the answer. Mr Blair trots that one out quite happily.

But the real reason is that to announce in advance that nothing nasty will happen to Mr Hussein without a new resolution would encourage him to find new ways of dividing the Security Council. It is because Russia and France know that America and Britain are willing to act alone if necessary that Mr Blair expects that they will come on side. In other words, the threat of the unilateralism that the Labour Party so abhors makes the multilateralism it yearns for that much likelier to come about.

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God's rule, or man's?

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From The Economist print edition

AP

As Iran's power struggle approaches a climax, the contradictions of its hybrid constitution grow ever less sustainable, argues John Grimond

Get article background

NOT far to the south-west of Tehran stands the holy shrine of Imam Ruhollah Khomeini, the ayatollah who inspired, led and largely created the modern world's only theocracy. The site is well chosen. To the north is Tehran, the city that swept the ayatollah to power in the revolution of 1979. To the south is Qom, the sun-baked seminary town where he had studied, preached and challenged the rule of Shah Mohammad Reza Pahlavi, and which is now the theological heart of Shia Islam. Next door is Behesht-e Zahra, the main cemetery for Tehran and the resting-place, too, for about 30,000 Iranian soldiers killed in the 1980-88 war with Iraq. Soon, if all goes to plan, a new international airport will open nearby, bearing the ayatollah's name. Here, if anywhere, it seems, you can appreciate the transformation of Iran from an American-manipulated dependency to a proud, self-sufficient Islamic republic.

At a distance the shrine, a vast edifice with huge courtyards, towering minarets and blue-tiled domes, is certainly impressive. But on closer inspection this is not a building throbbing with life, or even quiet contemplation. True, on official mourning days, and especially on June 4th, the anniversary of the ayatollah's death, the multitudes appear. But usually the buildings are quiet, the pilgrims few and, in the cavernous, alabaster-floored hall where a green-bulbed chandelier shines down on the ayatollah's tomb, only a trickle of devotees come to pay their respects. Most of the shops are unlet, the snack bars unpatronised, and the travertine steps are beginning to break up. Even before it is finished, the shrine is becoming dilapidated. So it is with the Islamic republic itself.

The most striking aspect of this decay is the virtual paralysis of government, a consequence at one level of the power struggle that convulses the country. At a deeper level, though, it is a consequence of the contradiction embedded in a constitution that stipulates for Iran both religious and democratic rule. After nearly 24 post-revolutionary years, it has become apparent, if not admitted, that a government cannot be satisfactorily run both by the elected representatives of the people and by the unelected representatives of God.

La trahison des clercs

In fact, Iran has two competing governments. One, that led by Muhammad Khatami, has been in office, if not in power, since 1997. Mr Khatami, campaigning on a platform of political reform, was first elected with nearly 70% of the vote. He or his fellow reformists have since won three other elections with even bigger majorities: local elections in 1999, a parliamentary poll in 2000 and another presidential contest in 2001. But though the mandate for reform is plain, Mr Khatami has managed to make few changes, at

least by legislation. He has been thwarted by conservatives upholding the religious rule of Iran's supreme leader, Ayatollah Ali Khamenei.

The conservatives' main agents are the judiciary, which uncompromisingly imposes Islam's *sharia* law, and the security forces, including the Revolutionary Guards, the *basij* (volunteer paramilitaries) and the morals police (usually self-appointed vigilantes), as well as the army. The clerics' power has also been fortified by the Council of Guardians, a 12-member body that decides whether laws passed by the *majlis* (parliament) are compatible with both Islam and the constitution. In addition, the council supervises elections and vets candidates, disqualifying those it disapproves of. Since its six clerical members are appointed by the supreme leader, and the other (lay) six are chosen by the *majlis* from 12 lawyers selected by the head of the judiciary (himself appointed by the supreme leader), its disapproval tends to be reserved for reformists.

For a while, the conservatives' efforts to frustrate Mr Khatami only made him more popular. As newspapers were shut down, pro-reform candidates disqualified, bills ruled improper, protests quashed and writers and activists murdered by “rogue elements” in the intelligence ministry, the pressure for change mounted—and with it the reformists' electoral majorities. But the conservatives were unbending. Scores more newspapers were banned. Members of the new, reformist *majlis* who had been elected in 2000 found themselves beset by hostile hardliners. Despite their parliamentary immunity, three were sentenced to prison as part of an anti-corruption campaign, and another was jailed for speaking his mind in the *majlis* (he was eventually pardoned).

Mr Khatami seemed to give up. A bookish cleric, he has charm and a winning way with the voters, but he has never seen himself as a Gorbachev, a man who would make possible the end of the system, let alone a Yeltsin, a man who might precipitate that end. He is instead what he claims to be: a reformer, one who can improve and thereby safeguard the system by bringing about limited change, not one who would tear it down.

Mr Khatami is what he claims to be: a reformer, one who can improve and thereby safeguard the system, not one who would tear it down

Such a man may have his uses, as Ayatollah Khamenei well knows: by making a few bland reforms, he could help to mollify the voters, and still the students, without threatening the power structure. And though the hardliners do not like to see the liberalisation of anything at all, it is important for the ayatollah and

his friends that, at least formally, the democratic element of government should survive. Without it, the theocratic element would lose all popular legitimacy. How lucky for them, then, that Mr Khatami has little appetite for system-shaking showdowns.

Yet that does not mean he is always averse to lesser confrontations. Twice in his career he has resigned from office, once as editor of a newspaper, *Keyhan*, and once as culture minister (in 1992, in a row about censorship). Now he is letting it be known that he may resign again. This time it would be an act of desperation, recognition of the fact that his two terms in office will be judged a fruitless failure if he does not soon assert some authority.

That realisation seems to have struck him last August. By then it had become clear that the voters were losing faith in their tribune, and opinion surveys were soon putting his support at 43%, compared with over 75% in 1998. Some people were openly critical of his caution. Most simply seemed to be retreating into disillusion. “I accept that there is a sort of hopelessness in our society,” said Mr Khatami himself, before declaring that “the president must have the power to perform his duties.”

The gauntlet he was thereby throwing down took the form of two parliamentary bills, one designed to rein in the judges who have done so much to squelch free speech and other civil liberties, the other to curb the Council of Guardians and restore to the interior ministry (answerable to Mr Khatami) the power to approve or disqualify candidates. Together these bills would in effect confirm the president as number two in the system and not, as conservatives sometimes assert, a co-equal with the head of the judiciary.

The stage was thus set for the showdown Mr Khatami had so long put off. The script seemed to promise an unfolding of events that would start with the passage of the bills, their prompt veto by the Guardian Council, followed by the possibility—if nothing were done to avert a crisis, and if Mr Khatami remained defiant—of a referendum. After that, assuming a big yes from the people and a big no from the clerics, would come the resignation of Mr Khatami and most of his supporters in the *majlis*. Out of the ensuing chaos, right would triumph. The inflexible rule of the mullahs would be tempered, the concept of Islamic republicanism would be saved, and Mr Khatami would have his place in history.

Unintended consequences

The script, however, began to go wrong almost at once—thanks, typically, to a hardline judicial decision. In a speech last June, Hashem Aghajari, a dissident academic, had dared to challenge the clerics' divine right to rule, calling for a “religious reformation” of Shia Islam and criticising Shias' readiness to emulate top ayatollahs like “monkeys”. For such “blasphemy” Mr Aghajari was sentenced on November 6th not just to a few years in prison, which might have passed without protest, but to imprisonment, flogging and death.

The reaction must have surprised even the judiciary. Iran's universities erupted, and even an assurance from Ayatollah Khamenei himself that the sentence would be reviewed—soon denied by the prosecutor-general—was not enough to restore calm. The demonstrations continued into December. Bigger and bolder than any since the student protests brutally suppressed in July 1999, they made it clear that the popular desire for reform was far from dead. And since they rapidly gave rise to calls not just for Mr Aghajari's freedom but for an end to unaccountable religious rule, they must also have sent a frisson down the backs of the clerics, and perhaps of Mr Khatami too. Yet, though the hardliners were visibly divided, they gave no ground, leading some onlookers to believe they would soon seize complete power.

It is conventional wisdom in Iran that no one wants to go through another revolution: the last one was too recent and too bloody, and was followed not just by a terrible war with Iraq but also by the ghastly violence that so often attends revolutions, while one side consolidates power and the other strikes back. Sure enough, November's protests stopped for a while, after the supreme leader and his thugs had made it clear that they were ready to suppress them by force. But in due course they resumed. By then it was clear, not least because of the increasing number of complaints raised by the protesters, that the power struggle must soon reach a decisive climax: compromise may yet be attempted but it will not endure. And with an end to the power struggle will come an even clearer exposure of the contradiction behind it, the contradiction between clerical and representative government—or, if you like, between God's rule and man's.

This survey will argue that even if dual control were possible, it would not last in Iran. The end of Khomeini's experiment in theodemocracy started when Mr Khatami was elected in 1997. In their conflicting ways, both reformers and conservatives—the terms are loosely used—have been trying to

save it ever since. But the decay is terminal, and almost every aspect of Iran shaped by its rulers is a failure. Since they try to control so much of their subjects' lives—public, private, spiritual, temporal—the failure is extensive. The only exceptions are some of the few measures taken by the elected government that have not been sabotaged by the unelected.

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The surreal world of Iranian politics

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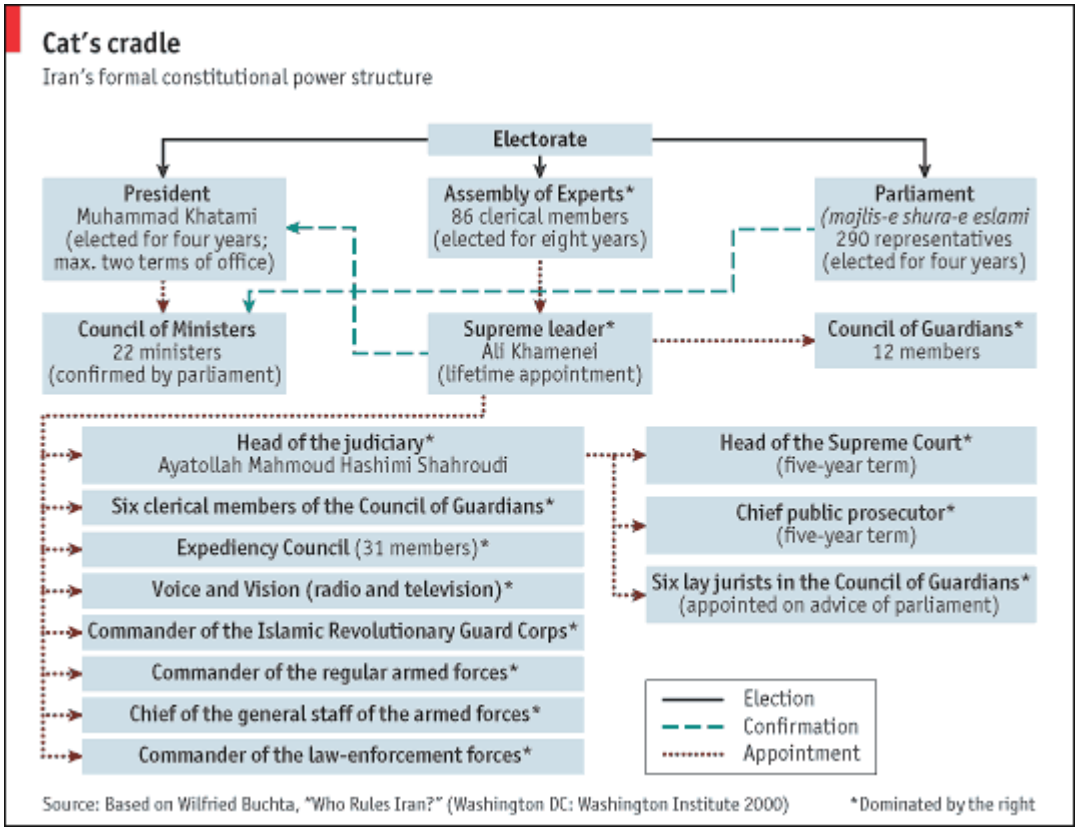
Anatomy of a power struggle

MAKING sense of Iranian politics is no simple matter. Indeed, even making sense of the power structure is far from easy. The institutions have names that may seem ingenuously descriptive (such as the Expediency Council, which resolves disputes between the *majlis* and the Council of Guardians) or positively Orwellian: don't expect the 86 members of the Assembly of Experts, who choose the supreme leader, to know anything about law, art, physics, medicine or in fact anything except religion. Put that down, if you will, to the exuberance of Iranian political discourse and nomenclature—any country that has a Society of Combatant Clerics and celebrates Global Arrogance Day can't be all bad—but you may still be no closer to knowing where real power lies.



...by supreme Khomeini and Khamenei

The chart on the right, which shows who appoints or elects whom, may help. Less easy to depict, however, is the spectrum of political opinion. Never mind the Iraq-based Mujahidin-e Khalq, the armed opposition. Even within the ruling coalition, according to Atieh Bahar, a Tehran consultancy, the factions include the conservative right, reformists, moderates, old leftists, new leftists and some liberal critics. Another analyst of the Iranian scene, the International Crisis Group, in a recent study broke the factions down into conservatives and reformers (which include members of the modernist right, the Islamic left and technocrats), plus intellectual and Islamic dissenters, some of them nationalists, some students. Few analyses, however, can do justice to the relationships—blood as well as political—between many prominent Iranians, still less to the personal animosities that excite them.

To confuse matters further, many people fit naturally into one faction on one issue but a different one on another. Thus Ali Akbar Mohtashemipour may be considered a reformist on domestic affairs but a hardliner on the Palestinian question; and ex-President Akbar Hashemi Rafsanjani, who now serves as head of the Expediency Council, has been variously cast as ideologue, pragmatist and reformer—as well

as has-been and possible future leader after a conservative coup.

Parties do not help much either. They exist, but sometimes not for long. Khomeini dissolved even his own, dominant, post-revolutionary Islamic Republic Party in 1984 when it became difficult to reconcile it with the exigencies of clerical rule. Iran's political groups are better described as factions, mostly based on personalities rather than programmes, though often they have a newspaper in tow.

A philosophical bend

That is because, despite the importance of personalities, ideas count for a lot in Iran, and papers are vehicles for opinion and ideas as much as for reporting. It is difficult to discuss politics with a leading member of any camp without references to philosophers of every era and every school of thought. The walls tend to be book-lined, whether you are sitting in an armchair in the Tehran apartment of Khosan Ghadery, a professor of politics at Modarres University, or at a table in the office of Mohsen Sazegara, another reformist, in the Institute for Epistemological Research, or cross-legged on a carpet in the house in Qom of Ayatollah Ali-Reza Amini, a conservative cleric. And the chat may be as much about hermeneutics as political tactics, about Popper or Hayek as Khomeini or Hobbes.

The philosopher who inspires the reformists more than any other is probably Abdolkarim Soroush. He was once a good Islamic revolutionary, a Khomeini ally who was largely responsible for the “cultural revolution” of the early 1980s, in which the universities were purged (they were closed between 1980 and 1983). More recently, though, Mr Soroush has come to believe that religion must remain separate from worldly power, and he now opposes the use of Islam as a state ideology, though he sees it and democracy as essentially linked. Just as his ideas today inspire the reformists, so he is widely loathed by conservatives. His books are available in Iran, but the periodical that published many of his articles, *Kiyan*, was closed down in 2001.

The crucial text for the conservatives is, of course, the Koran. But the philosophical base on which Iran's theocratic edifice is built is Khomeini's *velayat-e faqih*, the rule of the Islamic jurist, a concept the ayatollah developed in exile in Iraq in the 1970s. Shia Muslims believe that Ali, Muhammad's son-in-law, was the rightful successor to the prophet, followed by 11 other imams. Twelver Shia, the branch of Islam that has been Iran's official religion since 1501, holds that the 12th imam, the Mahdi, who disappeared in 873 and is thought to be not really dead but in hiding, will one day return to “fill the world with justice”. Khomeini's contribution was to argue that, while awaiting the return of the “hidden” imam, the leading Shia clerics should assume both judicial and executive authority. They should select one of their own as the supreme leader, whose essential qualifications should be knowledge of Islamic law and justice in its implementation. Ultimate sovereignty lay with God, so opposition to the government was blasphemy.

Getty

Khatami, elected but looked down on...

The trouble with such an arrangement is that, except to those who are both devout and convinced of Khomeini's interpretation of Shia doctrine, it lacks legitimacy. That is presumably why Iran's constitution also has democratic characteristics. Fortunately or unfortunately, they are quite incompatible with the theocratic ones: the popular sovereignty implicit in universal suffrage is completely at odds with the sovereignty of God. Hence the clash between the elected and the unelected rulers of today's Iran.

Some, such as Amir Mohebbiyan, a conservative columnist for *Resalat*, say there is no crisis of legitimacy. The supreme leader is in fact chosen by the people, in the shape of the popularly elected Assembly of Experts, just as the American president is chosen by the popularly elected Electoral College. But this argument overlooks the fact that all the candidates for the Qom-based Assembly of Experts must be clerics, and moreover clerics approved by the Council of Guardians.

This, the control of candidates, is one of the three ways in which the conservatives maintain their wider grip. The second is their control of the judiciary (get rid of half a dozen judges, sighs one foreign diplomat, and most of Iran's civil-rights problems would be gone). The third is control of the armed forces, notably the Revolutionary Guards and the *basij*. Last November's student protests faltered only after a rally by some 10,000 *basijis* outside the former American embassy in Tehran. Although the students had by then decided to suspend their demonstrations, this show of strength lent visible

credence to Ayatollah Khamenei's earlier threat to unleash the “force of the people”.

These forms of control—plus powers of appointment over, for instance, the head of state radio and television—are greater even than those granted to the shah in Iran's 1906 constitution. But they are even more necessary to Mr Khamenei's hold on power than they were to his predecessor's. Khomeini, after all, was a theologian of repute, indeed an Object of Emulation, the highest rank for a Shia cleric. He was also undoubtedly popular: 10m people flocked to his funeral in 1989. But when Mr Khamenei took over, he had only just been made an ayatollah—to improve his credentials—and Khomeini had had to have the constitution changed to allow the supreme leadership to be held by anyone other than an Object of Emulation. Several clerics still outrank Mr Khamenei in the Shia hierarchy, and many more are troubled by the promotion of someone of only fairly senior standing to the top theocratic job.

Black yoghurt

The reason for the constitutional adjustment also contributes to the uneasy lying of the head that wears the clerical crown. It concerns the fall from grace two months before Khomeini's death of his chosen successor, Ayatollah Hossein-Ali Montazeri. Ayatollah Montazeri has the best of religious and revolutionary credentials—he is an Object of Emulation, and helped write the 1979 constitution—but he has since become a democrat and, for his dangerous impudence, has spent the past five years under house arrest in Qom.

He is not altogether silenced, though: his friends keep in touch and his views are disseminated via audio cassettes and the internet. Moreover, he has influential supporters. Some are in the *majlis*, where a call for his release was backed by 129 of the 290 members in 2001. But others may carry more clout. One such is Ayatollah Yusef Saanei, an Object of Emulation who lives across the road from his arrested counterpart. There he describes how he thinks the Guardian Council, of which he was once a member, has taken too much authority for itself. The council is part of the constitution, and should not be abolished, he says; but its members reflect the views of only a tiny minority. Ayatollah Saanei is an authority on Islamic jurisprudence who has issued a number of enlightened *fatwas*, notably about women's rights, ethnic and sexual discrimination and human rights in general, which he considers entirely compatible with Islam.

AP

... by supreme Khomeini and Khamenei

Such voices carry weight in Iran. The holy city of Qom, with its 45,000 or more clerics and 35,000 seminarists, has ten grand ayatollahs (Objects of Emulation), each of whom has a personal following of hundreds of thousands, if not millions, both inside and outside the country. From these followers they receive huge quantities of *zakkat* and *khoms*, the Islamic taxes (a fifth of income) which every good Muslim should pay, and which finance charities and Islamic causes.

Nor is Ayatollah Saanei's a lone voice. In an open letter last July, another leading cleric appointed by Khomeini, Ayatollah Jalaluddin Taheri, announced his resignation as the leader of Friday prayers in Isfahan, a post to which he had been appointed by Khomeini from exile in 1976. In an unprecedented attack on the country's rulers, he inveighed against “despair, unemployment, inflation and high prices, the hellish gap between poverty and wealth, the deep and daily growing distance between the classes, the stagnation and decline of national revenue, a sick economy, bureaucratic corruption, desperately weak administrators, the growing flaws in the country's political structure, embezzlement, bribery and addiction”. He went on to castigate “those who are astride the unruly camel of power...society's dregs and fascists who consist of a concoction of ignorance and madness, whose umbilical cords are attached to the centres of power...and those [vigilantes who take their inspiration from the *velayat*] who are convinced that yoghurt is black”.

The impact of this outburst was extraordinary, although somewhat diminished by a statement on Iran issued by George Bush in Washington a few days later. However, it hit home in three ways. First, it drew attention to the regime's failures (“Woe and alas! A thousand promises and not one kept!”). Second, it pointed to the allied problem of corruption, to which holy men are manifestly not immune. Third, it came close to a direct attack on Mr Khamenei's credentials as supreme leader, while extolling Ayatollah Montazeri.

Criticisms of this kind are particularly unsettling to clerics, many of whom, heeding the words of Khomeini himself, are increasingly concerned that the conduct of government, with its inevitable failures and consequent unpopularity, must tarnish the clergy. But the conservatives had only a few months to ponder that problem before the students were up in arms about the death sentence passed on Mr Aghajari. By the end of November they had seen the biggest student protests since 1999, and were beleaguered as never before.

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The trials of everyday life

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Though some restrictions have been eased, and others are ignored, most people find survival a struggle

ONE aspect of Iranian life that might be said to be improving is the social condition of the people. The chart below shows that, as reflected by some indicators, life for the average Iranian compares reasonably well with that of others in the developing world. Moreover, statistics do not tell everything. Ask anyone in the street and, no matter what her political views may be, she will describe how the petty restrictions of life have been relaxed in the past few years, how the dress code is now freer and the morals police less fierce.

A walk up the trails into the mountains just north of Tehran provides confirmation. This is where Iranians old and (especially) young go when they want to escape the suffocating smog of the capital, and also, to some extent, the suffocating presence of the morals police. On a recent Friday morning you might have found on the Velenjak trail heading up Mount Tochal an unmarried couple listening to pop music and openly holding hands, no longer rehearsed to tell inquisitive busybodies a pack of lies about their spurious engagement. Most women will not be wearing the all-over covering that ensures female modesty and comes in all the colours of the model-T Ford. Here, jeans may nowadays protrude from below women's coats, not the black trousers that peep out from beneath the almost-all-encompassing *chador*, the shapeless uniform still worn in most other places. And a coloured headscarf, not too bright but perhaps patterned, may be worn; make-up too. Cosmetic surgery is also in fashion. It is not unusual to see young women with surgical tape stuck to their face as they gaze out from their head-covering *maqnaeh*. "Odalisque with Nose Job" might be the subject of many a portrait in modern Tehran.

Not bad
Development indicators, 2000

	Life expectancy at birth, years	Under-5 mortality rate per 1,000	Adult illiteracy rate*, %
Brazil	68	39	15
China	70	39	16
Egypt	67	52	45
India	63	88	43
Indonesia	66	51	13
Iran	**69**	**41**	**24**
Nigeria	47	153	36

Source: World Bank *% of population aged 15 and above

Taraneh, aged 33, appreciates the new freedom. She remembers what life was like in the early years of the revolution. The *hijab*—covering up—was much stricter and more elaborate then and, at university, "It was an extraordinary event if a boy were even to ask you the time. Going out in public together was unheard of. Today's young don't know how lucky they are."

No, they don't. The morals police may be less intrusive but they are still around, says Negah, a management student out with her boyfriend Arman on the trail north of Jamshidieh Park, where a public execution had taken place only a few days earlier. She has had one run-in with the vigilantes for being out with a boy, which led to her arrest for 24 hours and a sentence of a fine or 90 lashes. She paid the fine. Arman, training in computer science, wants to study abroad—to join the 200,000 young people who leave Iran each year.

For many young Iranians, a ramble in the mountains is one of the few ways of relaxing in public with friends, and even this can be done in only one part of the country's relatively sophisticated capital. For double-lived Iranians, though, all manner of things go on behind closed doors. There, the young do what they do in other countries: they play pop music, western as well as local, they dance with members of the opposite sex (strictly taboo), they log on to the internet, confer by e-mail and mobile phone, tune in to forbidden satellite television and watch illegal videos (almost everything, including porn, is available).

Their parents also do their best to have a good time. Some western movies are shown in cinemas, but all are bowdlerised, and the state rigidly controls all broadcasting, so entertainment-seekers must perforce turn to crime. They watch satellite television, and brew their own booze or buy it from bootleggers. Many people keep dogs—considered unclean in Islamic law—as pets, as well as for security; and though hounds cannot readily be exercised in public, the occasional calls from hardline clerics for their arrest

(yes, dogs as well as owners) are seldom acted on.

Most middle-class Iranians, if asked about the restrictions, sigh and say they can live with them. But they can be more than an annoyance. The police may have to be paid off before a party, or bribed to overlook a satellite dish. And every now and again, despite all precautions, a raid is carried out that results in fines, imprisonment and flogging. Thus Iranians, young and old, live constantly in fear. Even when laws are not enforced, as nowadays sometimes they are not, there is always the possibility that they will be. Thus on hot evenings last summer, the cool place to be for the young of Tehran was the Gandhi shopping centre, where they could sit outside sipping what passes for a cappuccino in Iran—until, one night, the morals police arrived in their Toyota Land Cruisers, closed the offending cafés (what, no licence to serve fruit juice?) and arrested the revellers. Despite Mr Khatami's best efforts, the revolution remains determinedly joyless.

No place for free-thinkers

For some, it is far worse. In its annual survey for 2001-02, Freedom House, a human-rights watchdog based in New York, says: “The state continues to maintain control through terror: arbitrary detention, torture, disappearance, summary trial and execution are commonplace.” A few examples give the flavour. In 2000, for instance, scores of newspapers were closed down and journalists arrested. Members of the *majlis* who complained were taken to court accused of insulting the judiciary. Dozens of activists were arrested for inciting public opinion or endangering the state, and two reformist ministers were forced out of their jobs.

A group of intellectuals who attended a conference in Berlin in 2000 returned to a welcome of prison sentences of four to ten years. One was Akbar Ganji, a prominent journalist who had alleged that high-ranking clerics had been involved in the murders of about 100 dissidents between 1989 and 1997. Reporters Sans Frontières, a Paris-based monitoring group, said Iran had more journalists in prison in 2000 than any other country.

The repression continues. Two months ago, the supreme leader graciously pardoned Abdollah Nouri, a former interior minister who had been Mr Khatami's keenest pro-reform adviser until the Special Clerical Court had jailed him for publishing anti-Islamic articles and promoting friendly relations with America. Mr Nouri's brother had just been killed in a car crash. But the same day, November 4th, which happened to be the anniversary of the storming of the American embassy in 1979, also saw the arrest of another reformist, Abbas Abdi, who had played a leading part in the 444-day occupation of the “Den of Spies”. Mr Abdi's crime was to be a founder of a polling institute which had carried out a survey—commissioned by the *majlis*—that revealed 74% of respondents to be in favour of a dialogue with the United States. Three weeks ago Mr Abdi made a curious recantation, presumably under extreme pressure.

Iran has no independent trade unions, and workers have no right to strike. Religious minorities are tolerated, up to a point. The population is 89% Shia Muslim, 10% Sunni (mostly Kurds) and 1% Zoroastrian, Bahai, Jewish or Christian. Except for the Bahais, the minorities have seats in the *majlis* reserved for them and generally enjoy freedom of worship. But the 30,000 Jews know they have to watch their step—in 2000 ten Jews were imprisoned for spying for Israel—and no member of a religious minority can expect to hold a senior government or military position. Special mistrust is reserved for the 300,000 Bahais, because their movement broke away from and then rejected Shiism in the 19th century. They are thus regarded as heretics and blasphemers, and are given no place in the constitution. Moreover, their marriages are not recognised, which leaves their women open to charges of prostitution and their children “illegitimate” and without inheritance rights.

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The curse of Westoxification

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And the roots of discontent

CONCEIVABLY, Iranians could put up with their restricted civil liberties if they had other comforts, religious or material, or both. Many of them are, after all, both devout and, especially in the countryside, conservative. Yet there is no evidence that most observant Muslims believe civil liberties to be incompatible with Islam, still less with a comfortable life. And though Iran, perhaps because of its ferocious criminal code, is relatively free of violent crime, it is starting to show many of the manifestations of the modern, "Westoxificated" (a favourite word among the zealots) world.

Few of the social ills besetting Iran are in fact peculiar to the West: urbanisation, the breakdown of family life as people move from country to town and the new demands to which city life gives rise can be found as easily in Brazil or India or Nigeria. One consequence is intense pressure on the environment. Iran is a country of 70m people, 67% of whom live in cities, compared with just over 40% in 1970; at least 10m, some say 12m, live in Tehran alone. Three decades ago, when its population was just 2m, the capital, or at least its northern parts, used to be a city of handsome houses with shaded gardens. But planning laws have been disregarded, and building permits sold corruptly or to raise money for a cash-starved city council. Now nondescript high-rise buildings fill most of the old gardens in the north. Elsewhere shoddy development or plain disrepair is the order of the day. Many buildings are derelict, abandoned by owners who have fled abroad.

Other cities have suffered less. Kashan, a desert town between Tehran and Isfahan, is restoring some of its old merchants' houses with respectful care. But the countryside is not immune to a combination of drought and lack of attention. The forests of northern Iran, for example, are vanishing at an ever faster rate: by 9,250 hectares a year in 1955-67, 18,180 a year in 1967-94, and 29,000 a year since then. Some 90% of the sturgeon in the Caspian Sea have disappeared through overfishing (though Iranians are less guilty in this than their neighbours). *Resalat*, a conservative newspaper, reported recently that 50,000 villages are deserted, abandoned because of drought. Even within an hour of Tehran, around Damavand, 88 villages have been completely evacuated, and in Baluchestan and Sistan province 124 villages have recently been buried by sand.

The environmental horror that affects more people than any other, especially in Tehran, is air pollution. The cost of traffic congestion in the capital is put at 2 billion hours of time wasted each year. The cost of the pollution in terms of respiratory and other diseases must be far higher. Every day 1,200 vehicles and 600 motorbikes join the throng, clogging the streets with traffic and choking everyone with fumes.

The average age of Iran's cars is 17 years, and few have catalytic converters. Moreover, the fuel they burn so inefficiently is low-grade, high-sulphur, noxious stuff. The commonest vehicle is the Paykan, for years the only car made in Iran. It is based on the British Hillman Hunter, a car hardly at the cutting-edge of modernity even when it was last produced in Britain, which was in 1979. Like the revolution of the same year, it is now on its last legs.

Another traffic hazard in Iran is imminent death. Old, unlit, decrepit cars—the horn seems to be the only part that never fails—combined with anarchic driving make even crossing the road a terrifying experience. Red lights are for shooting, pedestrian crossings are for running people down, one-way streets are for treating as two-way death traps. The arm of the law, so long in almost all other respects in Iran, seems completely abbreviated on the roads. The newspapers declare almost with pride that "Iran has one of the highest rates of road accidents in the world, with an average of 200,000 reported

annually, in which 15,000 people are killed." Visitors are told breathlessly—and mathematically dubiously—that one person dies in a car accident every 26 minutes. The only surprise is that it is not every 26 seconds.

Life on the streets

Iranians seem stoic, but the pressures of urban life take their toll. More and more people are, for instance, turning to drugs. Iran lies next door to Afghanistan, where most of the world's opium is produced, as well as morphine and hashish. Huge quantities are seized, but even the authorities admit that over 2m Iranians take drugs (four tonnes of narcotics a day, apparently), and the number of associated deaths is rising fast: 1,276 were reported in the six months to September last year, a 58% increase over the same period in 2001.

The fight against drugs costs Iran the lives of a dozen policemen a month, say officials, and some $800m a year. But the bigger cost is in rising crime and ruined lives: over 60% of crime is drug-related, and over 70% of AIDS cases, which are fast increasing, arise from contaminated syringes. A walk around southern Tehran or the outskirts of other cities confirms that drug addiction is a huge problem: crouched by walls or huddled in doorways are men with glassy eyes, ravaged features—and virtually no hope of assistance.

There, too, some of Iran's 200,000 officially acknowledged streetchildren can be found. Many are picked up at the bus terminals where the out-of-towners first arrive. They may be fleeing a violent father or, if they are teenagers, merely running away with a lover. If caught, they are liable to be taken to a reception centre where girls are given compulsory virginity tests. Failure—unless repairs can be done by one of the surgeons who specialise in "restoring" virginity—may mean forced marriage or even prison for a corrupting boy.

Many girls will take to prostitution, an activity widely practised though strictly illegal, unless it takes the form of a temporary marriage known as the *sigeh*. Peculiar to Shia Islam, the *sigeh* is a contract between a man (who can be married) and a woman (who cannot—she is usually divorced) for a union with a defined time limit, perhaps 99 years, perhaps 30 minutes. So long as it is registered, the authorities give their approval. Indeed, women offering *sigeh* services are reported to be freely available even at the holy shrine in Qom, where their partners may well be clerics. It is certainly a thriving institution: in the six months to last October, the number of temporary marriages rose by 122%, partly, suggested Iran's notaries' office, because of the rising cost of full-blown weddings, partly because the country's divorce rate had increased by 32%.

The *sigeh*, though, will not satisfy demand. Iran is reckoned to have 1.7m homeless women, 1m of them without any state support. No wonder it is also said to have 300,000 prostitutes. Their number is growing so fast that some reformists recently suggested legalising brothels, to be called, apparently without irony, Houses of Chastity. Conservatives were outraged, but Khosrou Mansourian, who runs two NGOs in Tehran, one for the physically handicapped, the other for runaways, drug addicts and streetchildren, believes that the legalisation of prostitution is the only hope for the women who have to engage in it. He plans soon to start a charity called Prostitutes Anonymous.

Sexual segregation is not as strict as it used to be

Most women, however, have other battles to fight first. Sexual segregation is not as strict as it used to be: women can sit with men on buses, though they form separate queues and the back of every bus is reserved for them. One of Iran's four vice-presidents is a woman, Masoumeh Ebtekar, once a student stormer of the American embassy, now a keen reformer. The head of the environment agency is a woman. But women still sometimes have to enter buildings through separate doors, cannot shake hands with members of the opposite sex in public, and are scarcely allowed to appear in television advertisements (children are used instead). More seriously, they find it much harder than men to get a divorce, are regarded as equivalent to half a man as a witness in a court of law, and need a man's permission to leave the country. Mr Khatami says he would like to have appointed a woman cabinet minister, but reckons the country is not yet ready for it. Afghanistan, meanwhile, has two.

Iranian women, it seems, must content themselves with lesser victories, such as a new bill that entitles them to the same blood money as men, and the hiring of the country's first female bus driver last year (to drive only women passengers). Yet their disabilities are less severe than in many Arab countries. Moreover, they are far from powerless. For a start, they are becoming educated. Of last year's university

intake of 195,000 students, 63% were women. It will not be long before Iran's student body has more women than men.

Women are already being employed in jobs that would hitherto have been the preserve of men; though they make up only 12% of the active workforce, in offices and banks women may sometimes outnumber men. They are cheap, reliable and cause fewer problems. No wonder they are also marrying later, at an average age of 26 now. But, employed or not, if they have been educated, they are likely to be conscious of women's rights, and to be intolerant of the endless prospect of enforced social and legal inferiority.

Moreover, like men, they can vote from the age of 16. That right was granted, reluctantly, in recognition of the role played by the young Iranian men who went to their deaths in huge numbers during the war against Iraq. After the revolution, Khomeini discouraged birth control in an attempt to build up the Iranian nation. He succeeded. Two-thirds of Iran's 70m people today are under 30, and half are under 20. They constitute the bulk of the reform movement—and thus the hope of the present as well as of the future.

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Stunted and distorted

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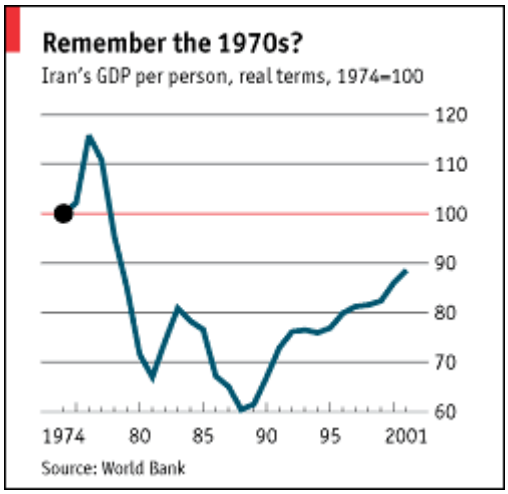
The economy is too dependent on oil and gas, and too dominated by the state



IRAN'S economy grew by 4.8% in real terms in 2001-02, after 5.7% the year before and 3.6% the year before that. Not bad, you might think: GDP per person in 2002 was 20% up on ten years earlier. But for many Iranians, even the young, the comparison they make is with the 1970s, when GDP per person was 30% higher than it was last year. For anyone old enough to remember the days of the shah, that statistic means something. Stationary in an evening traffic jam behind the wheel of his Paykan, Bahman, who works by day for the power ministry, says: "Before the revolution, I used to go out for a beer in a café after work. Now, in order to make ends meet, I have to start another job driving this lousy taxi."

What has gone wrong with the economy? Not recent macroeconomic policy, which received a generally favourable report from the IMF last September, despite 17% inflation and a growing fiscal deficit. Whatever the improvement, though, it has not made up for the upheavals of the revolution, years of subsequent mismanagement born of dogma and incompetence, the long, destructive war with Iraq and the Khomeini-inspired population explosion. All have played their part, adding to two enduring problems: Iran's continuing dependence on oil and gas despite many efforts to diversify, and the dominance of the state throughout the economy. Not surprisingly, politics lies behind both.

Iran has nearly 10% of the world's known oil reserves and more gas than any country but Russia. It said that at the end of last year it was producing about 3.4m barrels a day, slightly more than its OPEC quota of 3.2m, but well below its claimed capacity of 4.1m. Under the latest five-year plan, it hopes to produce 5m b/d by 2005, but, at least according to the consultancy Atieh Bahar, it is unlikely to succeed. Even if it does, it will still be well behind the 6m b/d pumped in the mid-1970s.

Some oil lies beneath the Caspian Sea, but most is in the west, in Khuzestan province. There it is cheap to extract—$1-2 a barrel onshore—though the fields are old, little exploration has taken place for 30 years and the installations have suffered from war damage and lack of investment. About 250,000 b/d of production is lost each year through the exhaustion and depletion of old wells.

However big its reserves, Iran is not staking its future on oil, which has proved a fickle friend, bringing plenty when its price rises but poverty when it falls. The vulnerability has proven hard to shake off. The oil industry no longer accounts for the 30-40% of GDP that it did 30 years ago, but it still provides 10-20% and, more seriously, 40-50% of government revenue and 80% of export earnings. The country has prudently built up a fund to help cushion it against oil-price falls, but it must nonetheless dread any lasting price collapse.

Iran could get better value from its oil if it wasted less of it. Just as it squanders water (consumption per person is twice the world average), so it squanders energy. Iran uses three times as much energy per person as Malaysia, ten times as much as China and 16 times as much as India. No wonder: the stuff comes cheap. Petrol, most of which is imported, can be bought for six cents a litre, even though to buy it and transport it to the point of sale costs about 30 cents. In general, Iranian petrol prices are about 10% of world prices, and have been rising more slowly than inflation. The government fears a revolt if energy subsidies—which are variously put at 12-18% of GDP—were abolished, though a World Bank study last year said that, if transferred back to households in equal amounts, the incomes of the poorest people in towns would double and those of the poorest in the countryside would treble. As it is, some say Iran will become a net importer of oil (only petrol is imported at present) within a decade.

The government, however, is less eager to boost the production of oil than of gas. Gas must be injected into some oil wells to keep them in production. The pressure must be maintained in semi-depleted wells, partly to make extraction easier from the reservoirs, partly to prevent collapse, partly to reduce the amount of salt water that inevitably bubbles up along with the petroleum. There is also optimistic talk of using compressed natural gas in cars. But the main reason to make gas a priority is that, although Iran has South Pars, the biggest gas field in the world, it shares it with Qatar, and Qatar is pumping the stuff out as fast as it can.

Iran wants to be producing 700m cubic metres of gas a day by 2007, but at present manages only 300m. The reason is largely political. No one except those at the very top likes to take a decision. So approval for anything tends to be drawn out, and approval for something involving foreigners, as oil and gas production does, is likely to pit reformers against conservatives, making it even more delicate and controversial.

Difficult, but too big to ignore

The central awkwardness lies in the constitution, which forbids foreigners to own concessions, operate oil projects or enter into production-sharing agreements. After some puzzling, Iran found a way round this problem through a “buy-back” system, whereby foreign companies finance and develop a project, but are reimbursed in dollars, not oil. Foreign oil companies do not like the system, because it gives them no long-term stake. They also complain of the shortage of qualified Iranians and the expense of employing expatriates, at ten times the cost of a local. Nor do they like the hard bargaining, delays and indecision; they would much prefer either a play-by-the-book democracy or a my-word-is-law dictatorship. But they reckon Iran is too big a source of oil and gas to ignore. Almost all the big oil companies, even Exxon, have a presence in Iran, and TotalFinaElf, the only company to have gone through a complete buy-back cycle, seems well enough pleased with it.

For Iran, though, oil and gas are problematic. As it wastefully devours oil, for which the market is generally a seller's one, the country looks ever more nervously at its plentiful gas, which must be sold in a buyer's market. Western Europe would like another source of supply besides North Africa (limited life expectancy) and Russia (too fragile a basket to hold all the eggs). But Iran is some way from Europe and the stuff must be transported. Turkey said it would take 10 billion cubic metres of Iranian gas a year by pipeline, but its eyes seem to have been bigger than its stomach; supplies have been suspended. East Asia would be a fine market, but how would the gas be delivered? India, another fancied market, is much closer, but the idea of a pipeline through Pakistan produces only a mirthless laugh.

A better bazaar

So does salvation lie in those parts of the economy outside oil and gas? It could do, if Mr Khatami's reform proposals, embodied in the 2000-05 five-year plan, were ever allowed to bear fruit. Much of the plan is devoted to promoting the rule of law, non-oil exports, privatisation and deregulation. But the president has little to show for his efforts, because most of these reforms would strike at the power of the clerics, or of their commercial allies, the *bazaaris*.

About 60% of the economy is directly controlled by the state; another 10-20% is in the hands of five semi-governmental foundations

The big difficulty he confronts is that about 60% of the economy is directly controlled and centrally planned by the state (the constitution actually implies it should be much more) and another 10-20% is in the hands of five semi-governmental foundations. These *bonyads* were set up after the revolution chiefly to administer property confiscated by the state, supposedly for charitable purposes. They control much of the non-oil economy, exploiting their preferential access to domestic credit, foreign exchange, licences and contracts. They are accountable to no one except the supreme leader, and subject to no public scrutiny. The incoming head of the biggest, the Foundation for the Dispossessed and War Disabled, said in 1999 that he would get rid of 250 of its 350 mostly loss-making companies. But though their sale is central to Mr Khatami's plans to privatise 538 enterprises, few if any of the *bonyads'* companies have in fact been sold.

Progress on other fronts has been equally slow. Iran now has one genuinely private bank, Karafarin Bank, with three branches in Tehran, one in Isfahan and three others under construction. It claims to be more efficient than the state banks, and on lending rates beats them by 3-3½ basis points. Three other

banks are nominally private, though in fact linked to state-owned enterprises or parastatals.

The car industry is stirring, too, and Iranian-made Peugeots, Kias and a home-grown model, the X7, are now joining the traffic jams. But locals speak scathingly of domestically produced cars; even makers with good reputations abroad apparently build sub-standard vehicles in Iran. Moreover, they sell at vastly inflated prices. An Iranian-made Kia Pride can be bought in Syria for less than half its price of roughly $8,000 in Iran and, being an export model, will be better built than the local version.

Rolling out the unwelcome mat

Iran claims to want foreigners. Last year, after much wrangling, it eventually passed a foreign-investment law to attract them. Most analysts say this is a step forward, but still leaves much to be desired. Foreigners dislike the thicket of taxes through which they must fight, the high prices they must pay (hotels routinely charge foreigners two or three times as much as locals), the fact that it is virtually impossible to lay off labour and the endless haggling and quibbling. Even so, some foreigners are doing business, lured by the size of Iran's market, its educated workforce and its potential as an export base for the Middle East.

There would be more of them if Iranians themselves were investing, but they are not. The various free-trade and special economic zones that have been set up have attracted some money, but so far the trade zones, at least, have been used more for importing than for exporting. Iran's exchange rate, set by a managed float, makes exporting difficult. On the other hand, the average tariff of nearly 30% should encourage production for the home market, but Iranians seem to prefer property or commerce to industry. Certainly, there is plenty of money, some local, some from émigré Iranians, to finance the building boom in northern Tehran. But the suspicion lingers that Iranians prefer the long-practised arts of the bazaar—importing, exporting, trading—to the dirty world of making things. Moreover, the system actually encourages illegal trading: smuggling out across leaky borders commodities, notably petrol, that are subsidised in Iran, and bringing back goods that can be legally made at home only by going through an endless round of bribes and permits.

Iranian businessmen's attitude is “wait and see” while a distorted economy labours on. The central bank, the main engine of economic reform, does its best. Last year it unified Iran's multiple foreign-exchange rates, and successfully launched a *euro*625m bond. Soon the World Bank may resume lending, despite American opposition. But the political deadlock means economic deadlock too. The clerics dare not abandon their control over the state enterprises and *bonyads*. They dare not antagonise their supporters in the bazaars with a programme of privatisation, deregulation and freer trade. Nor do they dare risk a mass uprising by reforming the subsidy system, which affects not just energy (at least $13 billion a year) but wheat, rice, cooking oil and sugar too (at least another $1.6 billion). Whatever the intention, the subsidy system helps the better-off much more than the poor. Iran cries out for a proper welfare system, directed at those most in need: 15% of the population subsist below the poverty line, and average living standards are no higher than 20 years ago. But no real change is in prospect.

Meanwhile, it may be asked, who will provide the jobs for the burgeoning number of young people? The oil, gas and petrochemicals sector employs only 120,000 workers, and is hardly going to mop up the job-seekers. The government has recently started to hand subsidies to employers to take on extra staff. But with job-creation lagging behind the increase in the labour force—1.8m people turn 18 each year—and registered unemployment of 16% (probably five points below the true figure), the number of people out of work can only rise from its current 3.2m, perhaps to an explosive 7m or 8m in the next few years.

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Stuck on the axis of evil?

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Dogma, not logic, determines most of Iran's foreign policy

HOW different would Iran be if it were not a pariah state, branded by George Bush as part of the “axis of evil” and subject to American sanctions and more general misgivings, if not ostracism? Very different, it is tempting to think. Since terror, weapons of mass destruction and rabid anti-Americanism seem to be innate characteristics of the regime, Iran would by definition be rid of its autocratic government and therefore a respectable member of the family of nations, and probably a democratic and prosperous one at that.

So how can it get from here to there? First, it must persuade the outside world, America in particular, that it is not trying to go nuclear. Iran makes no secret of its missile programme, which now enables it to fire a rocket, the Shahab-3, over a distance of 1,300km (800 miles). It has other rockets, too, and last September said it had successfully tested a new one, the Fateh-110, though no details of its range or payload were given. There seems no reason to doubt that the rocket programme is primarily defensive, though it also serves to deter—American forces in the region would be in range—and to bolster Iran's image as an Islamic power. The question is, however, whether it could be used to deliver nuclear weapons.

Good gracious, no, says Iran. Yes, the Russians are building it a nuclear power station near Bushehr, but Iran has signed all the main arms-control treaties and can point to the International Atomic Energy Agency's declaration that it knows of no Iranian breach of the Nuclear Non-Proliferation Treaty. Yet suspicions persist. They are based on spying, on patterns of procurement and research, and also on logic: why should Iran, so rich in oil and gas, want nuclear power, with all its problems of expense and toxic waste? And so far from wanting to scale down nuclear operations in the light of new gas discoveries, the Iranians seem to be scaling them up: three weeks ago Russia and Iran agreed to study the construction of a second power station, and two more may follow.

Nuclear weapons may well seem appealing to Iran. Several countries close to it—Russia, India, Pakistan, Israel—have, or are assumed to have, nukes. Iraq, which used chemical weapons against Iran less than 20 years ago, is said also to be developing nuclear weapons. Even Russia, long considered a friend and strategic partner, suddenly looked a bit less stalwart last year when it palled up with NATO and said it would hold military exercises in the Caspian. And Iran feels ever more nervous about America, a force in the region, and one that often uses its missiles there. Moreover, America has installed a friendly government in Afghanistan, and may do the same in another neighbour, Iraq. To make matters worse, it describes Iran as evil and conducts war games (Millennium Challenge 2002) based on an invasion of it.

On the other hand, as Shahram Chubin, in a study for the International Institute for Strategic Studies (IISS), points out, acquiring nuclear weapons “would put Iran into a different league of risk and reprisal, and this would not necessarily leave it with enhanced security.” Israel's prime minister, Ariel Sharon, has called for Iran to be the next target as soon as America has dealt with Iraq—and it was Israel, it may be remembered, that took pre-emptive action against Iraq's nuclear power station at Osirak in 1981. Last month satellite photographs confirmed that Iran was developing other nuclear plants, hitherto undisclosed, and the Iranians said they were speeding up work at Bushehr. Fortunately, even the Americans think Iran is years away from a bomb.

Still in America's bad books

That does not mean Iran is off the hook, though. America still regards it as the most active state sponsor of international terrorism. The days may be gone when Iran sent its agents round the world, allegedly to blow up Jews in Buenos Aires, probably to sabotage Arabs in Bahrain, and certainly to murder its domestic critics in Berlin restaurants. But they are not gone when it comes to the Arab-Israeli dispute.

Iran still supports Hizbullah in Lebanon, and it is accused of helping the Palestinian groups Hamas and Islamic Jihad. Though it is not clear that it has armed or trained these organisations, it seems to have given them money. There is certainly no doubt that it provides moral support in their rejection of the peace process. Iran regards the Palestinians' fight, whatever their methods, to be a struggle for national liberation. As for Hizbullah, as Mr Chubin of the IISS study says, it constitutes a validation of Iran's model: the “party of God” is both a Shia parliamentary force in Lebanon and a militant group that helped to expel the Israelis in 2000. And hatred of Israel is utterly central to the ideology of the Iranian regime.

Or rather the ideology of part of the regime. The hardliners are certainly as fierce as ever. Clerics rant at Friday prayers, the weekly religious-cum-political propaganda session, when the revolutionary spine is stiffened by the supreme leader's representatives; the cry of “Death to Israel!” goes up as often as its counterpart, “Death to America!” One of the all-but-official *bonyads* takes pride in sending money to Palestinian “martyrs”. And other help is probably given clandestinely, for example, by sending arms to militant Palestinians on boats like the *Karine-A*, captured by Israel a year ago.

But whereas the hardline view is that no two-state solution to the Palestinian problem is possible, meaning Israel must be destroyed, Mr Khatami has sometimes said Iran would be content with any settlement satisfactory to the parties themselves. In other words, in foreign affairs, as in all others, Iran has two policies. Moreover, as in all others, the reformist policy is often sabotaged by the hardliners. Hence, no doubt, the *Karine-A* episode—which a majority of the *majlis* wanted investigated, to learn whether it had really benefited Iran's national interest.

So despite Mr Khatami's efforts, Iran's national security policy—which is determined by a small, albeit changing, group under the supreme leader—has altered little since he came to office; but the president can at least claim some successes in foreign policy. An early one was to repair relations with the Gulf states, including Saudi Arabia, which had been poisoned by suspicion and subversion. Another was to dissociate Iran's government from the *fatwa* against Salman Rushdie, a British writer whose book “The Satanic Verses” had infuriated Khomeini. That, and the sacking of Ali Fallahian, the Iranian intelligence minister who had been named by a German court in the Berlin bombing case, led to an improvement in relations with Britain and Germany, and thus the rest of the European Union.

Whereas America has steadfastly turned its back on Iran, the EU has started to talk about a trade and co-operation agreement

The new atmosphere has enabled Mr Khatami to cultivate the EU, which he has done with some success. Whereas America has steadfastly turned its back on Iran, the EU—partly seizing the commercial opportunity, partly playing soft cop to America's hard cop—has started to talk to Iran about a trade and co-operation agreement. Its original “critical” dialogue, with conditions about terror, human rights and suchlike attached, has become a “comprehensive” one. Political issues have not been forgotten, say the Europeans; on the contrary, meetings to discuss them began in Brussels last October, and the EU is now taking the credit for the possible suspension of the Iranian practice of stoning convicted adulterers. For his part, Mr Khatami is keenly promoting his “dialogue of civilisations”, a formula for improving foreign relations without provoking the hardliners. It has brought him several visits to Europe—to France, Germany, Italy and Spain—and several bilateral trade agreements, though few involve much money.

Europe may be counted a feather in Mr Khatami's cap, but relations with America are a no-go area for him. They are the very stuff of revolutionary dogma and, as such, reserved for the supreme leader. Yet here, too, signs of change were afoot, at least until Mr Bush's axis-of-evil speech a year ago.

The agent of change was Afghanistan. Iran hated the Taliban, a bunch of Sunni thugs who sent 2m refugees over the border, turned off its water supply (the Hirmand river), persecuted Shias as heretics and slaughtered Iranian diplomats in Mazar-e-Sharif. Iran, or at least reformist Iranians, did not even care for Afghanistan's guest of honour, Osama bin Laden, whose brand of terrorism the reformists now realised served only to isolate their country; it had anyway lost much of its appeal for them since it had been used so horribly against likeminded dissidents at home. Accordingly, Iran was ready to play a fairly helpful role when America decided to deal with the Taliban. It let America send humanitarian aid through Iran to Afghanistan, and said it was ready to rescue American troops or pilots in trouble on Iranian territory. It pledged $567m over five years to assist in the rebuilding of Afghanistan, and helped dissuade its former client, Burhanuddin Rabbani, from trying to become president, thus leaving the way open to American-backed Hamid Karzai. Revolutionary Guards even served alongside the Northern Alliance—as did Americans.

In return for this co-operation, Iran was promoted to the axis of evil. Why? America's new hostility to terrorism of any kind played a part. So, perhaps, did the claim that Iran had helped al-Qaeda members

to flee Afghanistan via Iran. It denies that charge, claiming that it arrested over 250 al-Qaeda suspects (some were sent to Saudi Arabia), though it confirms that last year it deported some 20 people—one of whom turned out to be a son of Osama bin Laden—to Pakistan. By then, though, it had taken serious umbrage at Mr Bush's words.

Mr Bush shows no signs of repentance. On the contrary, the United States has renewed the two American measures that impose trade sanctions on Iran (neither does terrible damage) and, more significantly, the administration has stopped making any favourable references to the reformists. Instead, spokesmen such as Zalmay Khalilzad, a special assistant to Mr Bush on Iranian affairs, take pains to criticise the unelected, as distinct from the elected, members of the regime.

But it is no secret that several members of the administration have, like many Iranian students, given up hope that the reformists can deliver real change. In a statement on July 12th, Mr Bush directed his appeal to the “people”, not the government, and in August Mr Khalilzad elaborated a “dual-track policy based on moral clarity” which spelled out what was “destructive and unacceptable about Iran's behaviour” while promising “partnership and support for the Iranian people”. Three months later, asked what he thought about the student protests on the streets of most large Iranian cities, Richard Armitage, the deputy secretary of state, was saying it again: “Well, what's important is not what I believe, nor, for that matter, what the United States believes. What's important is what the people of Iran believe.”

Meanwhile, his colleagues were telling the world about Iran's evil side. One aspect of that is its declared interest in technology for handling the nuclear fuel cycle—from the making of the stuff to its management when spent—which may lead on to the production of weapons-grade plutonium. Another worry was the statement last April by the Vienna organisation that administers the Comprehensive Test Ban Treaty that Iran had ceased to co-operate with it. To make matters worse, says Mr Khalilzad, Iran has other nasty weapons; it has made blister, blood and choking agents. And it is pointed out that Mr Khatami himself seems keen to rearm; after a trip to Moscow in 2001 he signed an arms deal with the Russians worth $7 billion.

Hate-love relationship

Does all this worry the Iranian regime? The unchanging vehemence of official diatribes suggests no governmental wish to be either more or less friendly. Though some moderates, such as Behzad Nabavi, the deputy speaker of parliament, are conciliatory, no one dares to be judged pro-American. Some clerics may reckon that the hardening of American opinion serves to show the failure of the reformists' policies, and thus strengthens their position, at least for a while. And many hardliners seem to believe, perhaps correctly, that Iran is indeed under threat. They think America has designs on its oil, and will act against Iran once it has disposed of Saddam Hussein. Hamidreza Taraqqi, a conservative theoretician, says better relations are blocked by huge differences on ideological, cultural and political matters.

In the longer term, though, the conservatives cannot just take pleasure at the reformists' discomfiture. The opinion polls suggest that most Iranians like America. After September 11th 2001, some Arabs could scarcely conceal their delight, or at least their *Schadenfreude*; by contrast, hundreds of Iranians took part in a spontaneous candle-lit demonstration of solidarity in Tehran. America is host to about 1m Iranian émigrés, whose families back home do not understand why they should, as an article of faith, hate the Great Satan. Iran can, apparently, hold talks with Iraq, an enemy that has slaughtered Iranians on a vast scale, but it cannot with the United States, which, 50 years after the British-and-American-promoted coup against the government of Muhammad Mosaddeq, is an increasingly unconvincing bogey. Equally awkward is the prospect of an American-led attack on Iraq. It would bring about an end that is heartily desired in Iran by mullah and layman alike. Yet the very idea is reviled as an anathema.

Some people think this state of affairs cannot last. Saeed Laylaz, a prominent reformer who was once an ally of ex-President Rafsanjani, considers a resumption of relations with America an inevitability. The regime is essentially flexible, he says, though it knows that in times of political turbulence it is dangerous to make radical U-turns: that was one lesson from the Iran-contra affair, when Mr Rafsanjani's government was revealed to be doing business with the Americans. Even so, the mutual interest in seeing a new regime in Iraq presents intriguing possibilities. Some reports indicate that Syria voted for the resolution against Iraq in the UN Security Council last November only after it had received Iran's blessing. An extra concession may come, it is suggested, with Iran's agreement to help America retrieve airmen from its territory in the event of a war against Iraq, just as it did in Afghanistan. But, this time, Iran will be looking for a reward, not a punishment. If it gets even a small one, the makings of something bigger could indeed lie ahead.

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A secular democracy-in-waiting

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The certainties and uncertainties about the future

WHERE will it all end? In a secular democracy, it seems safe to predict, though it may be called something else. But how and when are harder questions.

It is still just possible that the current power struggle could lead to a compromise, in which the conservatives let Mr Khatami have his two bills, somewhat watered down. The contradictions inherent in the constitution would remain largely intact, the central question of where sovereignty resides would stay undecided, and the final showdown left for another day.

More likely, the conservatives, perhaps through a miscalculation by hardliners, could dig in their heels, leaving Mr Khatami little choice but to resign, perhaps taking a large part of the *majlis* with him. Handled skilfully by Mr Khamenei—who was chosen by Khomeini for his political, not his religious, skills—such a crisis need not be the end of the system. But, mishandled, it could lead to another student uprising, with unpredictable consequences. The outcome then might be a conservative coup, brutal repression or perhaps some kind of victory for the reformists.

Religion in its right place, the background

What would such a victory consist of? Not, alas, an immediate secular state. Mr Khatami, after all, though he is undoubtedly sincere in describing himself as a democrat, is a confused one: his call for a “religious democracy” is really an expression of belief in the system, which he hopes to save by reform. Some of his fellow-reformers are secularists, but many of the dissident clerics linked to Ayatollah Montazeri, who is often seen as the biggest threat to Mr Khamenei, are hostile not so much to the supreme-leader system itself as to the man who currently holds the job.

One large imponderable is beyond any Iranian's control. If Iraq gets a new leader and a secular, democratic government, Iran will feel the consequences. Iraq is the only other country with a Shia majority, long persecuted by Saddam Hussein. With someone else in power, many of the Iraqi ayatollahs and lesser clerics who long ago decamped to Qom might return to Iraq's holier cities of Karbala and Najaf. Albeit diminished, Qom would probably survive as a religious centre. But a tolerant, Shia-dominated democracy next door—not, admittedly, an altogether likely prospect—could pose an awkward competitor for the concept of the *velayat-e faqih* in Iran.

Other external forces—America is the most likely agent—could bring even more rapid change to Iran. Some hardliners fear that Mr Bush, having got rid of Mr Hussein, will keep grinding his axis. One possibility would be a military attack—not, presumably, an invasion to bring about “regime change” in Iran, but perhaps a strike against the Bushehr reactor. An alternative would be just stronger diplomatic and rhetorical isolation of Iran. As it is, it will be difficult for the EU to continue its trade and other relations if the regime cracks down much harder on its dissidents.

A fall in the price of oil, perhaps after the removal of Mr Hussein, is yet another possibility. A low price would wreak havoc with Iran's budget and add to popular discontent; any lower than $18 a barrel is sometimes said to spell serious trouble.

Not another bloody revolution

If outside events are uncertain, so are many inside factors. Iranians are in no mood for another violent upheaval, it is often suggested; instead of turning to politics, they vent their frustrations through the arts, which are flourishing, and wait for evolutionary change. Yet riots, apparently unpolitical, often flare up, for example in Tehran when Iran was beaten in qualifying matches for the soccer World Cup in 2001. More recently, a proposed division of the north-eastern province of Khorasan had to be postponed because the previous attempt had led to violence. Khuzestan province saw riots three weeks ago after a crackdown on shops selling illegal videos.

Equally doubtful is the resolve, or effectiveness, of many participants in the struggle. Some students are doughty, but they are few in number and their leaders have been locked up and silenced. Members of the *majlis*, too, show courage by passing reformist bills and resolutions in support of dissidents. But how many are really ready to give up the perks of office? As for the reformist leaders, they are far from unified: the political liberals are not necessarily economic liberals, and factional infighting is commonplace. Could they ever agree on change? On the other hand, the conservatives may wonder whether they can safely rely on the loyalty of their forces to quell sedition. The hated *basij* are often called in to do the work of thugs, and the accusation is frequently heard that many of the bully-boys are really Arabs—widely disliked in Iran—imported from Palestine or Lebanon.

In Iran, however, the certainties are more telling than the uncertainties. One is the economic failure of the regime. “This revolution is not just about the price of watermelons,” Khomeini once said, but, insofar as it is, it has failed. It has failed in other ways, too: the polling firm Ayandeh last year found 94% of respondents saying the country was in urgent need of reform. Some 71% backed a referendum to choose a new form of government, and 63% were looking for “fundamental change”.

Too many Iranians feel betrayed by the revolution that so many once supported

So far, Iranians have been given little more than a relaxation of some of the rules governing the way they must live their daily lives. This is reminiscent of the changes to “petty apartheid” that were promoted in the 1970s by *verligte* (enlightened) white South Africans as a way of appeasing the black masses. Unless vastly amplified, the reformists' relaxations will fail just as surely. Too many Iranians feel betrayed by the revolution that so many once supported. Now they want to be more like other people, whom they increasingly know about. The country's first constitution, it is said, came in with the telegraph a century ago, and Khomeini's revolution with the audio cassette. Now the satellite dish and the internet—the 1.75m said to have access today are expected to become 20m by 2007—are bringing the world, with its secular and democratic as well as Westoxificated ideas, into Iranians' homes. To be sure, many Iranians are religious, but no more than 1-1½% attend Friday prayers, and lots of those who do are dragooned into being there. Three years ago one cleric said that 73% of Iranians did not even say their daily prayers.

The biggest threat to the regime, though, may come from the combination of demography and unemployment. Unless jobs can be found fast, discontent is sure to rise. Yet jobs will be difficult to create in an economy that is largely run to serve the narrow interests of those in power—many of them rustic clerics ill-suited to solving modern problems—and their allies in the bazaar. Moreover, for all the intellectuals' interest in ideas, it does not seem to extend to economics.

Adding to their weakness is an Achilles heel of the mullahs' own making: the experience of democracy, however frustrated, that Iranians have gained since 1979. This has given them a taste for the ballot-box that will be hard to remove—and, incidentally, an electoral record without rival in the Middle East. No other people there has so often cast its votes in free elections for reformers. Even more strangely, no other Middle Eastern people is so pro-American. Since Iran's national interests, viewed objectively rather than ideologically, are also in tune with America's, a change must one day be in order.

Caviar Thermidor?

It is tempting to compare the unravelling of Iran's revolution with changes of regime elsewhere. Are the conservatives like Soviet Communists, cynically clinging to power without much belief in their bankrupt ideology? Are the reformists like French Thermidorians, determined to end a reign of terror? Is Mr Khamenei a Brezhnev, a Ceausescu, a Honecker or a Jaruzelski? Is Mr Khatami a Gorbachev, a Salinas, a de Klerk or a Cory Aquino? Whatever the similarities, the parallels are inexact, so the answer to such questions is probably no.

What is happening in Iran is above all an Iranian drama, with its roots in the 19th century and beyond.

The 1979 revolution is often explained as a reaction to the efforts of an autocratic, corrupt and impatient shah who, when he tried to modernise his country, did it too quickly, just as Mossadeq, in a different, nationalist way, had been in too much of a hurry in the early 1950s. These events were undoubtedly episodes in Iran's long struggle between despotism and modernity, a struggle that goes back at least two centuries to the Iranians' defeat by Russia.

Iran has indeed suffered much at the hands of foreigners over the centuries, and many Iranians still like to blame outsiders for all the failings of their country. Yet their destiny, though it may be affected by outside events, lies chiefly in their own hands. The 1979 revolution marked a climax to the efforts of the Shia clergy, who had been arrogating powers to themselves over decades. The revolution has failed, and is irreparable. The time has come for the clergy to withdraw, as many of them realise, for Islam's sake as much as for their country's.

In time, Iran may well return to the 1906 constitution, its first, as the basis for a new one. The people will still be Muslim, by both religion and culture, so room may be found for some religious institution to scrutinise democratically passed laws; but with luck it will be only advisory. In the meantime, though, the power struggle must be played out. It may be long and nasty, or short and sweet. That uncertainty is, above all, for Iranians to settle.

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Retailing

When you can't sell the goods, sell the shop

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AP

The hottest items on the shelves at the moment are retailers themselves

AFTER a couple of sleepy years, dealmaking is back in fashion in the retailing industry. In the past nine months, America's Wal-Mart, the world's biggest retailer, has taken a controlling stake in Seiyu, a Japanese supermarket; and Britain's Kingfisher has bought control of a French DIY-chain, Castorama. Within Britain, recent deals include those involving the BHS and Arcadia fashion chains, and between GUS and Homebase, Britain's third-biggest DIY store.

More deals are in the pipeline. There is the creeping pursuit by a Scottish millionaire, Tom Hunter, of two department-store chains, Allders and House of Fraser. And then there is the latest humdinger: a battle for the supermarket chain Safeway, Britain's fourth-largest, sparked by a £2.6 billion ($4.2 billion) offer by a rival, Wm Morrison, on January 9th. On January 13th, J. Sainsbury, Britain's number-two chain, weighed in with a tentative £3 billion counterbid. Sir Peter Davis, Sainsbury's chairman, called it “a defining moment in British retailing.”

It certainly felt that way when, a day later, Wal-Mart (which owns Asda, Britain's third-biggest supermarket group) announced that it too wanted Safeway and was mulling an all-cash offer. Formal bids from both Sainsbury's and Wal-Mart await both due diligence and some guidance from Britain's strict Competition Commission. But public interest in the three-way fight is already hot, and bookmakers are taking bets on the outcome.

Sir Peter is right to argue that retailing is at a watershed. After enjoying boom conditions in Britain and America for far longer than other industries, retailers are finally facing recession. Consumer spending, already weak in Japan and continental Europe, is now losing steam in Britain and America. Despite a few bright results, and strong new-car sales, growth in Christmas and new year trading on both sides of the Atlantic was the weakest for more than 30 years. As Michael Niemira, at Bank of Tokyo-Mitsubishi in New York, puts it: “The industry went into Christmas with dismal expectations, and even that was too optimistic.”

After enjoying boom conditions in Britain and America for far longer than other industries, retailers are finally facing recession

The breadth of the retail downturn is the biggest surprise—it includes traditionally robust sectors such as pharmacy and food. Mr Niemira's index of 85 retailers in America found that 52% suffered falling same-store sales in December. Bleak warnings have sounded from such broad-based supermarket groups as Carrefour in France and Metro in Germany, from Federated Department Stores in America and from specialists such as Dixons, a British electronics chain. This week alone saw a bankruptcy filing from a New York-based toy retailer, FAO Schwarz, more store closures and 37,000 job losses at a bankrupt discount retailer, Kmart, and poor same-store sales

growth from Sainsbury's itself.

So far the industry has found no real solutions to the problems of slowing demand and price deflation, apart from aggressive discounting, which further damages margins. And the post-Enron conservatism is dampening product innovation and creative sales ideas. Britt Beemer, head of America's Research Group, which surveys shopping habits, says “it is merchandising stupidity. There is no new electronics item, no new toy. The focus is on Wall Street not Main Street. It is safer for Mattel to add another item to its Barbie range than risk something new. It's boring out there for shoppers.” Russell Jones, of Cap Gemini Ernst & Young, says that unless retailers distinguish themselves on service they will continue to lose out to the discounters.

Why buy Safeway?

The alternative way to keep profits growing is to cut costs—and one obvious means of doing that is through a merger. Richard Hyman, head of Verdict, a British retail consultancy, believes it is no coincidence that there is a fight over Safeway at a time when margins are under pressure. “The retail industry is maturing. Operating-cost inflation is outpacing retail-price inflation. The only response is to raise volumes, either by pinching market share or buying it.” The Safeway deal fits the pattern. Morrison and Sainsbury's expect synergies of between £250m and £400m a year from merging stores and greater buying clout.

But there is more to the Safeway battle than simple cost-cutting. As Sir Peter says, “Safeway is the only real strategic prize left in British retail.” Tesco is the clear market leader, and the fight is on to create a strong rival. Asda, backed by Wal-Mart's cash and global expertise, is gaining ground on Sainsbury's. Safeway would reinforce Wal-Mart's growing presence in Britain—seen as the ultimate test of its credibility as an international retailer, since it is faltering in Germany. Equally, the deal gives the Competition Commission, headed by Derek Morris, who led the “rip-off Britain” inquiry into supermarkets three years ago, a perfect chance to champion consumers by halting further concentration.

Guessing the final outcome will exercise even devoted students of game theory. What is clear is that the commission will not want Sainsbury's or Asda to win Safeway without significant store disposals, to prevent a duopoly with Tesco. By Sainsbury's own reckoning, bolting on Safeway would give it more than a 25% market share in four out of ten British regions. A Morrison win, by contrast, would level the playing-field, creating three roughly equal rivals to challenge Tesco. That makes it the most politically acceptable solution.

In the longer term, the Safeway deal could spark other retail mergers. If Wal-Mart loses, it may accelerate its moves elsewhere in Europe. The American giant still lacks a presence in France and Spain. Moreover, if Tesco has a more formidable rival in Britain, it too might be tempted to switch from an international strategy based on organic growth to something more aggressively based on acquisition.

But experience shows that retail mergers are tough to pull off and frequently end up destroying value—partly because local customs and tastes still vary greatly, and partly because global synergies in purchasing and the sharing of best business practice have been slow to materialise. Ahold of the Netherlands, for example, has come spectacularly unstuck after a three-year buying spree, and Carrefour is still licking its wounds after difficulties in integrating Promodes, which it bought in 1999. A troubled British pharmacy group, Boots, recently pulled out of Japan, and Marks & Spencer has retrenched to nurse its British stores back to health.

Andrew Fowler, a retail analyst at Merrill Lynch, notes that “acquisitions often fail in the retail industry. Wal-Mart/Asda is the exception not the rule”. And “strategic” deals, like the bid for Safeway, are often the biggest failures of all.

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Sport-utility vehicles

Roadroller

Jan 16th 2003
From The Economist print edition

America's favourite mode of transport is under attack

SPORT-UTILITY vehicles (SUVs) are, along with pick-ups and minivans, the products that keep American car companies alive. As such, they are also keeping the American economy moving. A 5% rise in vehicle sales during December was almost the only recent bright spot in consumer spending in America. SUVs and the like account for half of all passenger vehicles sold.

So any attack on this icon could have severe consequences—and at the moment there are two. One is a bizarre series of television commercials presented by a conservative commentator telling people that buying SUVs encourages terrorism because they guzzle petrol and make America too dependent on oil imported from countries seething with terrorists. Bob Lutz, a vice-chairman of General Motors, shrugged the ads off, saying they might even help to sell a few more vehicles.

More serious is the attack on SUVs for their poor safety record from the head of America's road-safety body. Jeffrey Runge, a former emergency-room physician who became administrator of the National Highway Traffic Safety Administration (NHTSA) in 2001, said this week that roll-over crashes accounted for 3% of car accidents in America but 32% of deaths. SUVs' occupants are three times more likely to die from their vehicle rolling over than are the occupants of saloon cars. In 2001, there was a 22% increase in roll-over accidents.

Customers feel they are safer in chunky SUVs and pick-ups. This widespread belief is nonsense

Car companies have long known that one reason why customers choose chunky SUVs and pick-ups is that they feel they are safer in such vehicles. The companies also know that this widespread belief is nonsense. It is true that large cars are safer than small ones for the occupants. But large cars which do not have a particular propensity to roll over are inherently safer than SUVs. Dr Runge wants manufacturers to strengthen the roofs of SUVs and pick-ups. He also pointed out that car companies could face tougher fuel-economy standards. The corporate average fuel-economy rules require that manufacturers conform to consumption of 27.5 miles per gallon for saloons, but only 20.7 for SUVs and the like. This difference has all but killed off large saloon-car sales (except for upmarket models).

Not even the series of fatal accidents to Ford Explorer vehicles fitted with Firestone tyres has quenched the appetite of Americans for ever-fancier SUVs. The NHTSA is behind schedule with a roll-over test that will give consumers more information about the propensity of SUVs to this kind of crash. The hope is that, armed with such information, they will switch from SUVs to large cars. Some hope. There is no room for a ten-gallon hat.

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German industry

Small is vulnerable

Jan 16th 2003 | ERFURT AND LEIPZIG
From The Economist print edition

The Mittelstand, backbone of the economy, has slipped a disc

Reuters

Trade and industry in the cold

UNTIL last summer, says Tilo Herrmann, his order book was full and he was recruiting new staff. Then the former East German army officer's telecoms-engineering firm was hit by the industry's troubles. Orders fell by 90%. In November, the Leipzig company went bust.

Such stories are common among the *Mittelstand*, the host of mainly small and owner-run companies that accounts for the bulk of Germany's GDP. The economy is anaemic, and banks—the small firms' main source of finance—are harder-nosed than they were. Creditreform, a consultancy, thinks that a record 37,700 companies went under last year. In 2003, the toll is likely to be higher still. The government is trying to help: on January 6th the economics minister announced a number of proposals, ranging from more generous support for young companies to a fusion of Germany's two main development banks and the removal of red tape.

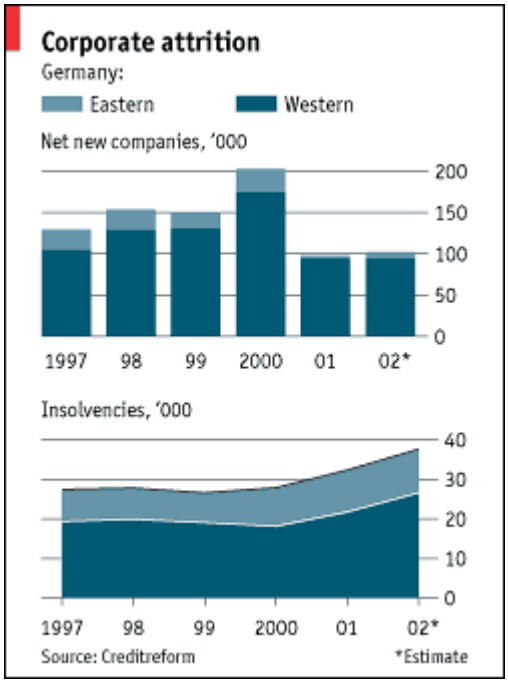
The former East Germany looks especially gloomy. Its unemployment and insolvency rates are over twice the west's. Some areas are still recovering from a flood last year that swept away infrastructure, homes and small businesses. The east depends more than the west on the well-being of its small firms. Although big western companies have been keen investors in the region, the east has scarcely any large businesses of its own. In Erfurt, capital of the state of Thuringia, few firms employ more than a couple of hundred people.

Yet the picture is not uniformly bleak. Almost one-third of eastern firms that fail, says Creditreform, are in the building industry, where the hangover from a crazy boom in the 1990s lingers. The number of new firms in the east rose in 2002. The eastern *Mittelstand*'s main problems, says Rüdiger Pohl of the Institute for Economic Research in Halle, are no different from the west's: too much regulation and a lack of domestic demand. But not surprisingly, a mere dozen years after reunification, eastern companies also tend to be younger and smaller than western ones.

One particular problem is finance. Traditionally, German firms are financed by bank loans. Equity is built up gradually out of profits and tends to belong to the owner and his family: to many of the *Mittelstand*'s owners, outside equity is anathema. But with the economy weak and banks more tight-fisted, many firms have too little equity for comfort, especially those that are still small and young.

Although statistics suggest that eastern firms have as much equity as westerners of similar size, the difference, says Hans Jörg Schwarz of CFH, the venture-capital arm of Sachsen LB, a public-sector bank, is that western companies have had several decades to build up hidden reserves: “It's what you can't see in the books that counts.” Young companies also lack managerial experience. “Most companies fail because they lack a well-balanced team to cover all management tasks,” says Christian Kunze of Chance-Mall, a consultancy that helps young firms deal with banks and venture capitalists, and also supplies interim management.

A further difficulty for eastern companies is that they often lack the networks of customers and other contacts that westerners have had years to cultivate. Nor have they had the time and resources to develop a broad range of products. This, says Mr Pohl, means that “eastern German companies are more prone to crises.”



Some have found ways round their difficulties. CircleSmartCard, an Erfurt firm founded in 1999, reckons its sales of plastic-card bodies exceeded 120m last year, with “quite a good profit”. Its founder, Reinhard Proske, is just one of 20 shareholders in the business. His partners, he says, have given him an instant network, bringing in exports to ten countries that now account for 65% of turnover. They provide, in effect, the contacts that most young firms lack.

The east did not start from scratch. Its most prosperous southern areas, especially Saxony and Thuringia, have a long industrial tradition. Some firms can trace their origins to pre-communist days. The president of Erfurt's chamber of commerce, Niels Lund Chrestensen, runs a bulb and seed company founded in 1867 by his namesake and great-grandfather, who installed the city's first telephone.

The break-up of the state-owned East German *Kombinate*, which employed tens of thousands, created opportunities for people such as Heinz-Dieter Schubert. His firm, PME, a maker of metal presses carved out of a state-owned business, employs 25 people, turns over a few million euros a year, and makes a profit. Except that he did not get the chance to start until he was 50, Mr Schubert is little different from his peers in western cities: a trained engineer, proud of his products, he plans to hand over to his son, who works in the firm.

Yet a wide gap remains between west and even the best of the east. The odds against a swift repetition in the east of West Germany's post-war *Wirtschaftswunder* are long. But the spirit of enterprise survives in this harsh soil, and in places is even flourishing.

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Airbus and Boeing

Asleep in Seattle?

Jan 16th 2003
From The Economist print edition

In a market shrunk by 50%, and with Airbus ahead, Boeing has big problems

Get article background

IT IS easy to be gloomy about Boeing as it prepares to report another fall in profits at the end of this month (analysts expect a drop of over 20% for 2002). The overall market for jet airliners has fallen from around 800 a year to barely 400 last year. This week Airbus confirmed that it has overtaken Boeing in both orders and output. The two companies, the only big makers of large passenger jets, expect a further fall in orders to some 350 this year—on top of which there are about 500 brand-new jets parked unused in the Mojave desert.

Orders are an important indicator, but between signature and delivery many are cancelled, trimmed or postponed. The two companies saw stricken airlines last year cancel orders for a total of 142 aircraft, with Boeing slightly the worse affected.

Deliveries reflect actual output and cash, and here the news is just as grim. Boeing deliveries will fall this year to around 280, down from 527 in 2001. Airbus, down from a peak of 325 in 2001, is still sticking to its previous forecast of 300 deliveries, although it will probably soon revise that downwards. So far its only big concession to the crunch has been to cancel previous plans to increase production to 450 planes a year.

Neither company sees any improvement before 2005, if then. Alan Mulally, chief executive of Boeing's commercial aeroplane business, says he has never seen things so bad in his 33 years in the business. In private, Boeing executives are very critical of their European competitor, accusing it of slashing prices and offering residual-value guarantees to keep its factories and workforce fully employed. Airbus points the finger at Boeing's aggressive use of vendor financing to boost sales.

The past two years have been unkind to Boeing in other ways too. Its product-development plans look to be in chaos. Its proposed stretched version of the flagship 747 flopped and had to be withdrawn two years ago. To cover that retreat, the company trumpeted its Sonic Cruiser, a futuristic 250-seater jet that would fly close to the speed of sound and clip hours off long-haul flights. But struggling airlines want planes that fly cheaper, not faster. So the Sonic Cruiser was quietly shelved over Christmas. Meanwhile, Airbus successfully launched its A380 super-jumbo, which now has an impressive order-book of more than 100, even before breaking into the crucial Japanese market.

A few years ago, all this could have been catastrophic. But today Boeing is no longer so heavily dependent on its civil-jet business, now down from 80% of sales to little more than half, as its defence and space interests have grown. The loss of the biggest defence contract ever, to supply the F-35 fighter to America's armed forces, has been made up for by a $20 billion contract to supply converted wide-body 767 aircraft as refuelling tankers for the United States Air Force.

“Connexion by Boeing”, the company's airborne internet service, is now finding customers, such as British Airways, Lufthansa and Japan Airlines, which judge Boeing's service to be superior to a more modest offering from Tenzing, a Seattle company in which Airbus has a big stake. Boeing, which moved its corporate headquarters from Seattle to Chicago 16 months ago to emphasise its diversification, is also forging ahead with ambitious plans to offer satellite-based air-traffic management services as soon as governments have the courage to adopt this technology.

Most importantly, in the heart of its civil-jet business, Boeing seems to enjoy a huge competitive advantage. It has been more easily able to adapt to the market slump. By the end of this year, 35,000

jobs will have been shed in Seattle, as its civil-jet division cuts its workforce by a third. Boeing has also revamped its production to improve productivity and protect profit margins even as its factories empty. Airbus, which has cut only the equivalent of 6,000 jobs (mostly contract workers), faces heavy redundancy costs in France and Germany if it tries to lay off any more people. On the other hand, partly through use of contract workers and outsourcing, it already manages to make more jets than its rival, with only two-thirds the number of employees. Let battle continue.

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Management metaphors

The Alexander technique

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Corporate strategy down the ages

“WE WERE offered a management book on geese once,” recalls Stephen Rutt of Palgrave Macmillan, a publisher. “Apparently a different goose flies in the lead position every time. But we don't have any examples of geese running successful businesses. I believe somebody else published it.”

The avian school of management theory may be small, but the search for appropriate leadership metaphors is relentless, given the collapse of this part of the books market. “Business books are in the wilderness, trying to get a sense of what people want to read,” says Raphael Sagalyn, a literary agent who specialises in the genre. Relying on zoology produces a limited field: “Managing the Human Animal” by Nigel Nicholson, for instance, described the primeval instincts raging in the business suit. History is a more fruitful source.

Some historical figures have left behind handy management texts. Machiavelli is, of course, required boardroom reading. A couple of years ago, the Boston Consulting Group produced a version of Clausewitz's thoughts on strategy. “The Art of War”, by Sun Tzu, a Chinese military strategist of some 2,500 years ago, far outsells Michael Porter's latest tome and has inspired some 50 or so books with such titles as “Sun Tzu's Art of War for Traders and Investors”. Readers of business books seem to like violent metaphors, observes Tom Davenport, who has a book on management-thinking on the way.

Some business authors see the careers of historical figures as case-studies. Given the imminent disaster and fragile morale that today's managers often face, Ernest Shackleton's ill-fated voyage offers inspiration, described by Margot Morrell in “Leadership Lessons from the Great Antarctic Explorer”. Another book of this kind, “Alexander the Great's Art of Strategy”, by Partha Bose of the Monitor Group, a management consultancy, appears in April. Mr Bose skips deftly from the defeated Alexander trusting a shepherd to lead him through the snow to Persepolis, to Lou Gerstner's approach to trust when he arrived at IBM.

If history does not work, try Shakespeare. Britain's Cranfield School of Management offers courses, with the rebuilt Globe Theatre in London, on “Managing the Edge of Chaos: Leadership lessons from Hamlet”. Stabbing rivals through the arras, however, is not a compulsory module.

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Japanese golf courses

Below par

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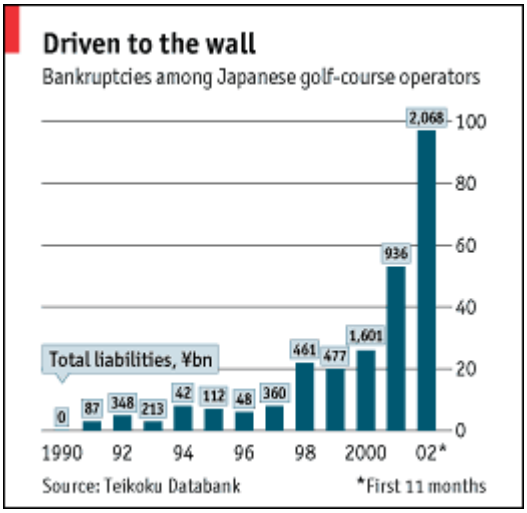
A bunker full of bankruptcies

REMEMBER Japan's golf mania? In the boom years, greens and clubhouses overflowed with businessmen entertaining clients. Companies piled up mountains of debt to build new courses at home and to buy old ones abroad, including the renowned Turnberry Club in Scotland and Pebble Beach in California.

The mania is now well and truly over. In 1990, the average price of Japanese golf-course memberships (which are traded rather like securities) rose to ¥49m ($400,000), according to an index that tracks them. A dozen years later, the price is less than ¥3m, and record numbers of golf-course operators are going bust. More than 100 collapsed in 2002, almost twice as many as in 2001, according to Teikoku Databank, a research company. Their total liabilities were over ¥2 trillion.

Foreign companies are buying up some of them. In 2001, Goldman Sachs bought Nitto Kogyo, an operator with 31 golf courses that collapsed in 1997. Locals are buying too. This year Nomura Holdings, a securities firm, UFJ Bank and Misawa Resort, a golf-course and hotel operator, will set up Japan's first domestic fund to invest in bankrupt courses. Buying appeals because those in handy locations are, with some tweaking, still promising businesses. Golf remains one of Japan's most popular leisure activities.



The first step in turning round a golf course is to get rid of its debt. But clearing debt, even through the bankruptcy courts, is tricky. That is because operators built courses not just with bank loans, but also with “deposits” collected from thousands of future members who, after bankruptcy, turn into thousands of hostile creditors.

In one respect, golf-course operators are a step ahead of the rest of corporate Japan. They have been slashing rigid personnel costs that cripple many companies. Misawa Resort, for example, has halved personnel costs at its 20 courses, partly by reducing the number of staff, such as caddies who receive fixed wages, and hiring part-time workers instead.

Golf still suffers from the over-capacity that plagues so many Japanese industries. The number of courses, now about 2,400, probably needs to fall to 1,800, says Nobuya Ishizaka, president of *Golf Digest Online*, a newsletter. Even at today's rate of bankruptcies, that could take a while.

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Branding medicine

As potent as its moniker

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The success of new drugs depends increasingly on what they are called

A DECADE ago, Pfizer turned to Interbrand Wood, a consultancy, to find a catchy name for its new medicine to treat erectile dysfunction. The challenge, according to Rebecca Robins, head of the consultancy's health-care division in London, was to invent a name with enough popular appeal to overcome the stigma associated with impotence, yet serious enough to appeal to doctors. The firm eventually came up with “Viagra”. Suggesting vigour and strength, it also rhymes with Niagara, evoking images of free and forceful flow.

Eli Lilly is taking a different tack with its new anti-impotence drug, being launched later this year. Lilly's product acts in basically the same way as Viagra, but it is longer-lasting. Instead of having to be popped just before intercourse, like Viagra, Lilly's product can be taken in the morning, and the evening can be left to look after itself. Interbrand Wood, which also christened Lilly's drug, has tried to reflect this potential for spontaneity and intimacy in its choice: “Cialis”, whose soft sounds are a far cry from the hardness of Viagra.

Meanwhile Bayer and GlaxoSmithKline (GSK), two European firms also planning jointly to introduce a drug for erectile dysfunction this year, have hit upon Levitra for their product. GSK says it plays upon the words “le” (French for “the”) and “vita” (Latin for “life”). The name's resemblance to “levitate”, however, is also a powerful reminder of the drug's primary function.

Years ago, christening a new drug was a much simpler affair, with company scientists creating monikers that somehow reflected the drug's chemical composition or biochemical mode of action. This is still true for the early stages of a new drug's development. When drugs begin life as molecules in a test-tube, they are usually assigned basic product codes, such as GW695634, GSK's reference for its new anti-HIV medicine, now in early testing. When a molecule is shown to have some useful activity, it is given an international non-proprietary name (INN), based on internationally agreed rules, which is submitted for approval to a special committee at the World Health Organisation.

By the time their shiny new products reach early clinical trials, drug companies increasingly turn to outside agencies (and spend as much as $200,000) to devise brand names that convey more than simple science. Creating a strong brand is especially important for drug promotion in America, where companies can advertise directly to patients and there are many “me-too” rivals acting on the same disease in much the same way.

Creating a strong brand is especially important for drug promotion in America, where companies can advertise directly to patients

Like most branding, drug names follow fashion. Thirty years ago companies wanted their products to start with the letter “A”, because they would be the first that doctors would stumble across when leafing through their prescribing compendiums. In the 1980s, names beginning with “Z”, such as Zantac, Zocor and Zovirax, were all the rage. “Today, V is the new Z,” according to Ms Robins—hence names like Vfend and Viagra.

The problem, according to Anthony Shore of Landor, another brand consultancy, is that good names are increasingly hard to find. There are roughly a million pharmaceutical and medical trademarks registered in America, and more elsewhere. So devising a short, snappy name for a product that will be acceptable around the world is a challenge.

Merely inventing a unique name for a drug that is legally available and culturally acceptable is also not enough: such trademarks must also be approved by regulatory agencies in America and Europe to ensure

that they are not easily confused with other drugs, nor promise more than they can deliver. Lilly, for example, originally chose to call its new anti-sepsis drug Zovant, a name which America's Food and Drug Administration (FDA) rejected on the grounds that it was too similar to those of two existing drugs: Zofran for nausea, and Zosyn, an antibiotic. Lilly renamed its product Xigris instead.

The firm did not have much luck with Forteo either. The name was chosen for its new anti-osteoporosis medicine, and was accepted by the FDA. But it was rejected by the agency's transatlantic counterpart, the European Agency for the Evaluation of Medicinal Products (EMEA), because the word is associated with “strength” in Italian and Spanish, and therefore constitutes unacceptable promotion.

The FDA currently rejects about a third of all trade names submitted. Given language differences across Europe, getting a single name through the European Union is even harder. One company had to rethink the name of a medicine it hoped to call Atrelar when it turned out to mean “to leash” in Portuguese.

Martin Harvey of the EMEA points out that things will only get trickier in Europe as the Union expands and brings in countries with non-Latinate languages. This is on top of the trouble that pharmaceutical giants increasingly encounter as they try to push their products into China and other Asian markets, with very different linguistic traditions and cultural associations. Coming up with a blockbuster name may soon be almost as tricky as coming up with a blockbuster drug in the first place.

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Face value

Christine Casey: whistleblower

Jan 16th 2003
From The Economist print edition

The high risks and low rewards of making allegations about your employer

CHRISTINE CASEY'S heart was in her mouth when she telephoned the Securities and Exchange Commission (SEC) in September 1999. Over the previous nine months, Ms Casey was later to declare in court, she had come to believe that her employer, Mattel, was misleading its shareholders about its likely future sales performance. As she picked up the phone, she imagined federal agents at her doorstep, daring undercover missions to gather evidence and, ultimately, respect for making her company better. Three years later, she has lost her job and (because big American employers routinely check applicants' litigation histories) any chance of getting another like it. She also lost the lawsuit she brought against Mattel for wrongful dismissal—and Mattel is now petitioning the court in the hope of recovering its legal costs from her.

Not long ago, it was celebrity bosses whose balding pates and bulging waistlines filled the covers of America's news magazines. Now those same magazines showcase the whistleblowers who are packing the bosses off to jail. Last month, *Time* put three female whistleblowers—from Enron, WorldCom and the FBI—on its cover, as its "Persons of the Year". *Business Week* declared that it would "not be too glib" to call 2002 the "Year of the Whistleblower", and cheerfully looked forward to a new age of squealing on the boss. Yet however heart-warming, this optimism depends crucially on the balance of incentives on offer to those who are brave (or foolhardy) enough to blow the whistle.

Ms Casey's experience is not encouraging. She joined Mattel, a big toymaker, in 1994. In 1997 the company put her to work developing a system to allocate production among its factories. But Ms Casey soon discovered a big problem: Mattel's official sales forecasts were so high that managers, who were meant to use them to plan production, routinely ignored the numbers. "It was a joke around the office," she says. Some managers kept two sets of figures, Ms Casey's documents show. Others would ring around to find out what they should really tell their factories to produce. The problem was most acute for Mattel's most profitable product: a pink plastic doll called Barbie.

The toy industry can be a treacherous business. "Your customers are two feet tall, their tastes are hard to determine, and they don't have a lot of money," as Ms Casey puts it. But Barbie's enduring success had turned Jill Barad, the doll's chief marketer, into a star. By 1997, it had propelled her right to the top of the company. By then, however, Barbie's fortunes were peaking. What Ms Casey saw—as early as late 1997—clearly pointed to falling demand. Yet Ms Barad, who was relying on the company's internal sales forecasts to make public profit forecasts, kept reassuring shareholders and remained upbeat through 1997, 1998 and for a good part of 1999. Mattel denies that its sales forecasts were inflated during that period, and says that the earnings guidance it gave was based "upon management's best judgment of the market place at the time".

In February 1999, Ms Casey approached Ned Mansour, a Mattel director. She had a proposal, she told Mr Mansour, that would fix the inflated numbers and help Mattel to forecast profits more accurately. At first, Mr Mansour appeared to be friendly. As Ms Casey persisted with her idea, however, the company grew hostile, she says. In August, one executive called her into his office and screamed at her, telling her he wanted her “out”. The same month, she got a negative performance review. All previous reviews had been full of praise.

Mattel then stripped her of most of her work and put her in a cubicle next to a pile of packing boxes. In October, she wrote to Mattel's former chief financial officer, Harry Pearce, expressing her concern that “misrepresentation of earnings projections has made the company vulnerable to shareholder litigation”. Having failed to get Mattel's human-resources department interested in her treatment (on the contrary, they harassed her as well, she says), she declined to negotiate an offer of money from Mattel to waive her legal rights, and resigned the following month.

Little support from the law

In November 2000, Ms Casey filed suit against Mattel. Mattel hired John Quinn, a lawyer famous for fighting (and winning) business lawsuits. Mr Quinn portrayed Ms Casey as a grasping, self-interested career woman who would do anything to climb the corporate ladder. Last September, the judge ruled in favour of Mattel, finding that Ms Casey's treatment was not sufficiently intolerable to warrant a finding of constructive discharge, and that she was not protected by whistleblower laws because she had made proposals to senior management instead of explicit complaints. Ms Casey is appealing.

Mattel has not escaped entirely unharmed, however. Last month, the company settled shareholder lawsuits (which had alleged deliberately misleading inflation of sales forecasts) for $122m, but without acknowledging any wrongdoing. Ms Barad left Mattel in February 2000, with $50m in her pocket. Mr Mansour left the following month, with $5.8m. Ms Casey, on the other hand, appears to have failed to get her information even properly looked at by the SEC. In its latest correspondence, dated December 4th, the agency advises her to contact the commission's “office of investor education”.

Under legislation passed last summer, managers face stiff new penalties—including the possibility of long jail sentences—for retaliating against whistleblowers. The new laws also beef up the board's audit committee as a conduit for internal complaints. Ms Casey says that what is really needed is a responsive outside investigator, anonymity, protection from former employers and, above all, the potential to earn a large reward for a job that, she now knows, can carry a heavy cost. So far, she has nothing to show for her efforts except regrets.

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The entertainment industry

How to manage a dream factory

Jan 16th 2003
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Dreamworks

Harder times are reminding the industry of the critical importance of creating good content. But that means managing the tensions between artists and suits

ONE by one, the men of extravagant vision and exaggerated showmanship have been toppled from the upper ranks of the world's media giants. The departure of Steve Case from AOL Time Warner and of Tommy Mottola from Sony Music are only the latest in a lengthening line-up that includes Bertelsmann's Thomas Middelhoff, AOL Time Warner's Jerry Levin and Bob Pittman, Vivendi's Jean-Marie Messier, Canal Plus's Pierre Lescure and EMI's Ken Berry. Into their places has stepped a parade of dull men in suits, such as Andrew Lack, new head of Sony Music, who has never worked in the record industry, Jean-René Fourtou, an ex-pharmaceuticals boss, at Vivendi or, at Bertelsmann, Gunter Thielen, ex-head of the group's printing and industrial operations.

This trooping of grey faces into the unruly media world marks a distinct change of mood. Talk of “vision”, “synergy” or “new paradigms” is out; the daily grind of evaluating and improving operating performance is paramount. Gone are the days when moguls such as Mr Messier posed jauntily for *Paris Match*, a French celebrity magazine, while skating in Central Park. Except for the two wise old birds of media—News Corporation's Rupert Murdoch and Viacom's Sumner Redstone—today's rising media stars, such as Tony Ball at BSkyB, Britain's leading pay-TV operator, or Jeff Bewkes, co-deputy head of AOL Time Warner, go largely unrecognised on the streets and unquoted in the press.

The need to return to the basics of the business was summed up recently by Peter Chernin, Mr Murdoch's right-hand man at News Corp. “What the hell were we thinking?” he asked. “Where did [the industry] get our grandiose ideas the media business was on the way to complete and utter re-invention?” His point was that during the boom, the industry was distracted by gadgets, mergers and convergence theories; now it is time to relearn old lessons about fostering creativity and manufacturing entertainment that people are willing to pay for.

The rediscovered importance of content is encapsulated at perhaps the most troubled media giant, AOL Time Warner. This week's news of the departure of Steve Case as chairman, under heavy pressure, marks the end of an era when new media held any sway at all. Mr Case, the founder of AOL, masterminded the merger with Time Warner three years ago (and pocketed a handsome profit). None of the architects of that deal remains in charge. Yet another battered division, CNN, saw its head, Walter Isaacson, quit this week. Today, it is the success of such traditional old-media assets as “The Lord of the Rings” and “Harry Potter” films, that keeps the group afloat.

But how to get content right? Why is it that Walt Disney, once a finely tuned Hollywood dream factory,

has lost its touch in animation? Its latest offering, “Treasure Planet”, which cost $140m to make, flopped at the pre-Christmas box office and forced the company to revise its 2002 results to reflect a $74m write-down. How can Home Box Office (HBO), by contrast, consistently turn out genre-busting television dramas, from its hit comedy “Sex and the City” to such dark series as “The Sopranos” and “Six Feet Under”, which are at once critical and commercial successes?

Oiling the dream machine

The answer is not simply the burden of scale, as some observers suggest. HBO is, after all, yet another part of the AOL Time Warner empire. It comes down to a less tangible factor. As Viacom's Mr Redstone puts it: “Size is not the barrier to creativity, it's bad management.”

Pinning down the elusive quality of good management is particularly hard in entertainment because it is such an odd industry, in two ways. First, it is hugely hit-driven. Most films flop, most records lose money, most TV series fail. A single hit—“American Idol”, say, for the FOX network—can transform profits. The fizzling out of a hit—as Disney's ABC found when viewers tired of the over-exposed “Who Wants to be a Millionaire?”—can drag down an entire division.

Entertainment bosses therefore need certain qualities: a readiness to take big risks, laser-quick reactions to fickle changes of taste, and a supreme confidence in their own gut instincts—all virtues, as Michael Wolf puts it in his book “The Entertainment Economy”, that reinforce the mogul model of leadership. But the best moguls trust their managers to take decisions too. “Show business doesn't attract leaders who know how to listen properly or leave people alone,” comments Roger Fransecky, head of the Apogee Group, which advises many media bosses. “But when you manage creative people, you must intrude carefully.”

Resisting the temptation to interfere, but at the same time enforcing operational control, makes for a delicate balance. With their unpredictable, autocratic management styles, Messrs Murdoch and Redstone might look like ruthless meddlers. Yet in fact each gives his trusted division heads and right-hand men—respectively, Mr Chernin at News Corp and Mel Karmazin at Viacom—the freedom to get on with their jobs.

The second oddity of entertainment is that managers have to be able to handle talent, or at least to handle the handlers of talent. Manufacturing content is not like manufacturing furniture. Armchairs do not get in a strop, go into rehab or become hospitalised for “exhaustion”—as Mariah Carey, a singer who had just signed an $80m contract with EMI's Virgin Records, did shortly before releasing a new album in 2001. Six months later, EMI sacked her, at a cost of $28m.

Because of the allure of fame, the entertainment industry attracts an unusual mix of aspirant managers, from the star-struck to the ice-cool. “Most people in the creative world think that they are artists themselves,” comments Alain Levy, head of EMI Recorded Music. Up to a point, this is necessary. Simply navigating the star system, with its shifting alliances of publicists, agents, record labels and studios, requires unnatural quantities of ego. But managing creative types, and imposing some order on their whims, is tricky.

“What is really hard is managing the interface between the creative thinking and the corporate profit-centre,” says Peter Kreisky, a media consultant who is writing a book about the management of creatively driven industries. The two cultures—of the ponytail and the suit—are a world apart, and combustible together. Few managers combine both creative credibility and commercial discipline. But the best entertainment companies manage to impose operational control without squashing artistic freedom.

Three companies illustrate how, or how not, to go about this. In each case, success—or failure—hinges on getting the balance between creative and operational leadership right. The first, HBO, shows that it is possible even for a vast corporation to retain an edgy creative outfit that achieves both critical and commercial success. HBO's series were nominated for twice as many Golden Globe awards this year as those of any of the broadcast networks. Insiders suggest that profits at HBO for 2002 could be up by 17% from the previous year, to $850m, on revenues of about $2.8 billion, or 8% ahead of 2001.

The second company is EMI, the world's biggest independent record company. It is busy trying to bring an end to an era of creative extravagance and financial excess, and to refashion itself as a tightly controlled music company that invests for long-term creative return. The improvement is beginning to show. In the six months to September 2002, EMI made a post-tax profit of £138.4m ($208m), after a

loss of £54.4m in the same period of 2001.

The third company, Disney, a media conglomerate built from an animated-film studio, offers a lesson in how creative supremacy can be lost—even during the reign of a single boss. Michael Eisner, in charge since 1984, was once widely admired for transforming a faltering film studio into a slick entertainment empire. Today, the company's creative touch has faded, and Mr Eisner is battling to keep his job.

It's not TV

To the untrained eye, HBO might look like just another bit of the sprawling AOL Time Warner empire. But it is fiercely independent, and has carved out a distinct identity. Employing only 1,770 people, less than 2% of the group total, HBO is physically and operationally removed from even the group's other TV activities, notably Warner Brothers in Los Angeles. That nobody ever suggests merging New York-based HBO into the other TV studios points to its strength as an autonomous operation. The secret has been twofold: the creation of a small boutique-like identity within a huge corporate institution; and the granting of creative independence within a tightly controlled operation.

On the first count, people working at HBO have a clear sense of what they are trying to achieve. As the company's slogan puts it: “It's not TV. It's HBO”. HBO prides itself on making difficult original drama that would not ordinarily find a place on the ratings-driven broadcast schedules. “We all know what we're looking for, we know how to smell it,” explains one HBO executive. This sense of purpose has been entrenched by stable management in an industry notorious for high turnover. Mr Bewkes, its former boss, was at HBO for 23 years until last year; Chris Albrecht, today's head, has been there for 17 years.

By itself, a boutique-like identity is no guarantor of creative strength. What drives HBO's success in original drama is its determination to grant writers artistic freedom—always to a commercial end. Talk to screenwriters in Hollywood and they enthuse about HBO. “It's an amazing place to work,” gushes one. “Once they have hired the right people, they give you the liberty to do what you want.”

Part of this luxury stems from the business model. HBO's revenues come from subscriptions, not advertising, so it does not need to chase ratings and can afford to be daring. But there has also been a deliberate effort by Messrs Bewkes and Albrecht to liberate creative people in order to keep pushing at the edges of television drama.

Unlike such media bosses as Harvey Weinstein at Miramax, who notoriously meddles with scripts and edits, HBO bosses let the creatives off the leash. When Alan Ball, who won an Oscar for his screenplay for “American Beauty”, began to discuss “Six Feet Under”, he was hardly pushing what looked like a commercial hit: a dark series set in a family-run funeral parlour and starring a repressed gay funeral director. The reaction from Carolyn Strauss, the commissioning executive at HBO? Make it weirder. Today, it is often the directors and writers who come knocking at HBO's door, not the other way round.

Escapology

Across the Atlantic, in its oddly cramped headquarters—by record-industry standards—in London's West End, EMI has been grappling with a similar effort to invest in artistic freedom while mopping up after an era of excess. When Eric Nicoli, EMI's chairman, hired Alain Levy, a music-industry veteran and former head of Polygram, as his head of recorded music in 2001, the Frenchman inherited a company that had turned profligacy into an art form—notably at Virgin Records in America. In an industry already troubled by piracy and illegal online file-sharing, the company did itself no favours by letting spending on marketing, salaries, parties and first-class travel spin out of control.

Mr Levy purged the place. He changed more than 30 heads of record labels; he trimmed the headcount by about 20%; he pruned the roster of artists by nearly 400, or about a quarter (all 49 artists in Finland got the chop). Out went Ken Berry, along with his wife, Nancy, vice-chairman of Virgin Music Group, whose reputation for partying and jetting about with stars was legendary. In came a two-headed structure that Mr Levy refers to as “my creative head and his Mr No”. At Virgin Records, he installed a new duo: Matt Serletic, a young creative type in charge of sniffing out new talent, and Roy Lott, whose job is to keep him from financial excess.

Mr Levy, who mixes a business-school background (MBA from Wharton) with a creative's uniform (shock

of curly salt-and-pepper hair, charcoal polo sweaters), does not pretend to second-guess musical taste. “My people just laugh at my French accent and remind me of my age [56].” But he does keep a tight watch on the profitability of his operations. He meets monthly with the financial head of each of the American record labels to go through the numbers; and every three months with the creative heads, to discuss artist development.

This is not meant to squash creative freedom. On the contrary, it is an attempt to put the right people in charge of signing and managing artists, but under tighter financial control. Mr Levy argues that the industry has lost sight of the need to invest in artists for the long term, and become mesmerised by overnight, overpackaged success. “Nobody is going to be successful if they don't have number ones,” he concedes. “But it all depends on how you get them.” TV talent shows may create instant hits and help grab market share, but will not develop lasting acts that build up a back catalogue for the future. This is the reasoning behind EMI's apparently extravagant new contract with Robbie Williams, which gives the music company a greater share in all his future revenues, not just those from record sales.

Nobody pretends that the record industry is an easy business to be in right now. But there are signs that EMI's new approach might help, not only from the company's financial improvement. Upcoming or new EMI acts, from Coldplay to Norah Jones, are doing well in America, EMI's traditional weak spot. *Billboard*, the American record-industry bible, named Coldplay's new album the best of 2002. Norah Jones's debut album hit number one in the American charts this week.

Over on the west coast, meanwhile, Disney's troubles throw light on how easily such creative feel can be lost. In his early years, Mr Eisner transformed a faltering company whose film studio had only a 4% share of the American box office into a global entertainment empire. By the early 1990s, Disney was a polished creative machine, turning out a stream of well-crafted animated films, such as “Beauty and the Beast” (1991) and “The Lion King” (1994). It was a commercial success too, pioneering the concept of generating branded characters that could be pumped out profitably as TV series, theme parks, fluffy toys, lunch-boxes and so on. Between 1984 and 1993, net profits at Disney shot up nearly sevenfold; by 1993, its box-office share was 16%.

In recent years, however, the Disney machine has sputtered. The most cutting-edge animated output it has distributed—“Toy Story”, “Monsters Inc”—has not been made in-house, but by Pixar, Steve Jobs's computer-animation studio. There are now only two more films left in its partnership deal with Pixar. And Disney's home-grown animated output tends to be charmless. In the year to September 2002, Disney's operating profits dropped by 33% from 2001, to $2.8 billion. The group has just replaced its head of animation.

What went wrong? There are various competing theories, including Mr Eisner's decision in 1995 to buy the ABC TV network, now the group's biggest single headache. But the two most persuasive explanations turn on the problem of balancing creative freedom with operational restraint. The first is that Disney has never recaptured the fine balance that existed when Mr Eisner's creative strengths were tempered by the operational sense of Frank Wells, his chief operating officer, who was killed in an accident in 1994. Since then, Mr Eisner's instinct for meddling, along with his increasingly centralised and controlling management style, has gone largely unchecked. Managers feel second-guessed; artists fear surrendering creative freedom. “Disney's problem isn't management,” says one Disney executive, “it's over-management.”

The second reason is Mr Eisner's inability to retain his top talent. The loss in 1994 of Jeffrey Katzenberg, whom he recruited to revamp the film studios, was searing. Frustrated at Disney, Mr Katzenberg went on to found, with Steven Spielberg and David Geffen, DreamWorks SKG, which has since released such superb animated films as “Shrek”. More recent defectors range from Joe Roth, who quit as the studio head in 2000 to found Revolution Studios, to Paul Pressler, who threw in his job last year running theme-parks to join Gap, the clothing chain. That there is now no credible successor to Mr Eisner within Disney's own ranks, in contrast to the smooth transition at HBO after Mr Bewkes's departure, only emphasises this failing.

Dedicated followers of fashion

On paper, the recipe for successfully managing an entertainment company appears simple: carve out small creative units within big companies to give them their own identity; grant them creative freedom from meddling bureaucracies; but do not do either recklessly. Yet striking the right balance between the artists and the suits remains remarkably hard.

Over the years, entertainment companies have often failed, and have instead swung, alternately, from being too strongly in favour of letting creative types rule, towards being too much in hock to the bean-counters. EMI has lurched from periods when the suits were in charge, notably under Jim Fifield's stewardship from 1988 until his sacking in 1998, to times of financial excess, when the creatives went untamed, as happened with the rise of Mr Berry in the late 1990s until his eviction in 2001. The firing of Mr Mottola from the loss-making Sony Music represents yet another attempt to bring an end to an era of creative and financial extravagance: Mr Mottola was so close to the talent that he ended up marrying—and later divorcing—one of the artists he had once signed in her pre-EMI days, Ms Carey.

If the pendulum theory of managing the creative industries is right, today's gallery of grey faces may last only as long as the downturn. Boom times tend, after all, to unleash profligacy—and not just in the entertainment business. The best companies are likely to be those that avoid swinging too wildly in favour of either ponytails or suits: both have their place.

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China's capital markets

Banking on growth

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AP

Signs of a more serious attempt to reform China's banks and stockmarkets

Get article background

LAST year, financial news from China came in two genres. One was scandal. First and foremost of a series of stunning revelations of embezzlement by bankers was the tale of Wang Xuebing, a connoisseur of French wine who had run two of China's big four state banks. He was placed under house arrest for fraud. In the stockmarket, one Lu Liang, now in hiding, took control of a listed chicken-breeder and ramped up its shares almost fourfold before they crashed.

The more disturbing genre consisted of new estimates by outside analysts of China's bad-debt problem. According to improbably precise official figures, 25.4% of all loans by Chinese banks are unlikely to be repaid in full. The true figure is more like half, maybe $500 billion-600 billion, say independent experts. Goldman Sachs thinks it would cost between 44% and 68% of China's GDP to clean up the mess.

China's leaders seem eager to start 2003 on a more positive note. The Communist Party's finance experts are due to meet this month to draw up new measures to be rubber-stamped by China's legislature when it convenes in March.

Top of the list, it appears, is the creation of an independent bank regulator. It will probably be headed by Liu Mingkang, who is currently the boss of Bank of China, one of the big four banks, and a dedicated reformer. This will leave the central bank—led by another moderniser, Zhou Xiaochuan, who until December was the head of China's securities regulator—free to concentrate on monetary policy, and in particular on the much-needed liberalisation of interest rates.

The government also seems keen to resuscitate its programme to clean up the banks' older dud loans. Just before Christmas, it said Goldman Sachs and Morgan Stanley would be allowed to form joint ventures with one of the four asset-management companies it set up in 1999 to take $170 billion-worth of bad loans off the balance sheets of the big four banks. One of these, China Construction Bank, said this month that it had asked separately for permission to form a partnership with Morgan Stanley to sort out its bad debts.

Even China's mostly hapless stockmarket investors (66m of them, officially) had something to cheer about this month, after the country's highest court said that shareholders could file individual or class-

action lawsuits against companies that lie about their accounts. There appear to be a lot of liars about. Around 900 shareholder suits are pending, in a country with 1,200 listed companies.

It remains to be seen whether these steps amount to mere tinkering, or herald the new and bolder approach to financial reform that China badly needs. Its markets for labour, goods and services are nowadays more liberal than those in some capitalist economies. Its capital markets, by contrast, have changed only cosmetically since the days of central planning. In effect, all capital in China is allocated, one way or the other, by the government, which wastes much of it.

The decade-old stockmarket is dominated by state-owned enterprises (SOEs) that were listed for political rather than economic reasons. Some two-thirds of the market's capitalisation is not traded, so the state retains total control. There is no corporate-bond market to speak of.

Similarly, the awful record of bank lending is more the fault of the government than of the bankers. The government has simply chosen to place most of the costs of China's transition from a planned to a market economy in the banks' loan books (rather than, say, issue government debt). Originally, the banks were no more than conduits through which ministries disbursed money to state industry. Even when they were told to start acting like proper banks, in the 1990s, they were prevented from doing so. Their managers were still political appointees. Lending was not based on commercial estimates of risk, but was instead geared to supporting favoured SOEs.

The SOEs remain the key to understanding why bank reform is so difficult. If the banks were to start assessing their loans commercially, they would have to make large cash calls on the SOEs, many of which are zombies as it is. Millions of laid-off and increasingly restless SOE workers are already roaming the countryside. Shock therapy, the Communists fear, might well lead to their political demise—ironically, at the hands of a desperate working class.

That is why the government has so far chosen to hope that economic growth will solve the bad-debt problem gradually. If official statistics are to be believed, and GDP really is rising by 7-8% a year, and if that pace can be sustained, this approach might just work.

The government also argues, persuasively, that China is unlikely to face a sudden crisis of the sort that hit other East Asian economies in 1997. China's banks are in almost as wretched a state as their counterparts in Thailand and Indonesia were in 1997 (see chart). But unlike those countries, China has almost no companies with foreign-currency debts. Nor is its own currency freely convertible.

Furthermore, even if China's savers—with a saving rate of 40%, among the world's most conservative—were to lose confidence in their banks, they would have nowhere else to put their money, mattresses apart. This explains why deposits have grown much faster than loans, making the banks more liquid.

The banks, then, might not face imminent danger. But how will economic growth help them out of trouble? Consumers are their likeliest saviours. China's strong tradition of saving notwithstanding, householders have become eager to borrow. The country is in the grip of both a housing boom and a car craze. Mortgage lending by the Industrial and Commercial Bank of China, the country's largest bank, has grown by 32 times in the past four years. Consumer lending by the big four banks has risen from 1% of their loan books in 1998 to about 10% now.

Better still for the banks, consumers should make more reliable customers than SOEs. The average consumer is unlikely to have party honchos calling the bank on his behalf, and is more likely to repay his loan.

For China's new leadership, however, all this should be scant comfort. The relevant comparison is not with East Asia in 1997, but with Japan in the past decade. Like Japan, China has been wasting capital for years. Eventually, that is sure to dampen economic growth. But whereas Japan is a rich country that can, arguably, afford to stagnate, China is a poor country always vulnerable to unrest. Gradualism or shock therapy: which is the riskier strategy for the Communist grip on power? That, surely, will determine the

ultimate outcome of this month's deliberations.

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The oil market

The central bank intervenes

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OPEC's delicate balancing act

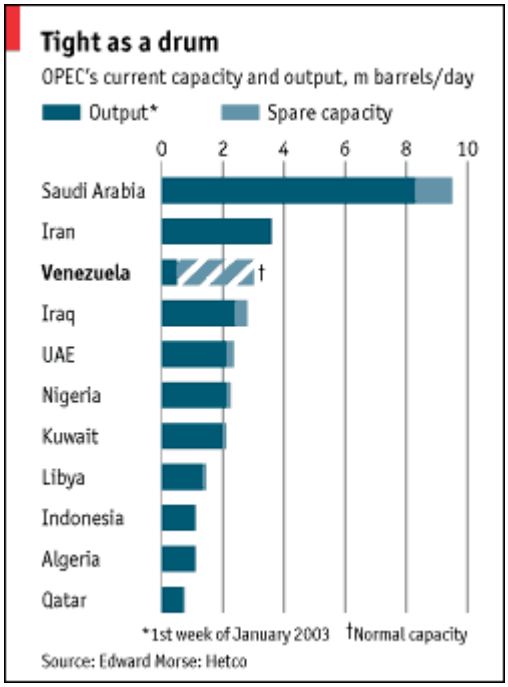
"CONSUMERS should reduce their panic," insists Abdullah bin Hamad Al Attiyah. Despite the reassuring tone of the president of the Organisation of Petroleum Exporting Countries (OPEC), the oil-producing cartel, a casual observer might retort that panic is justified: the oil market seems in turmoil.

For a start, continuing political and labour unrest in Venezuela has slashed its oil output. Venezuelan exports were about 3m barrels per day (bpd) in November, fell by more than half in December and have now slowed to a trickle. Next, George Bush's decision this month to send tens of thousands of troops to the Gulf makes war in the Middle East look closer. An invasion of Iraq would probably halt the country's exports, currently around 2m bpd, for some time. What is more, commercial oil stocks in OECD countries are unusually low for the time of year. That is why oil prices are now bouncing around $30 a barrel, up from nearer $20 a year ago.

Hence OPEC's emergency meeting in Vienna on January 12th. Having agreed to cut production only a few weeks earlier, oil ministers made a sharp U-turn. At the insistence of Saudi Arabia, the kingpin of OPEC, they agreed to increase their production quotas by 1.5m bpd. Moreover, Ali Naimi, the Saudi oil minister, now says that if a war disrupts supplies, his country is ready to make up for any lost exports, regardless of the political background: "Our commitment is to the stability of the market, not the cause of the shortage."

In effect, notes Robin West of PFC Energy, a consultancy, the Saudis have signalled that they remain the "central bankers" of oil, and that they have the spare capacity to ensure that OPEC can deal with disruptions on two fronts. Importantly for America, Mr Bush will not have to tap his country's strategic petroleum reserve to deal with the Venezuelan crisis; all that oil will now be available to compensate for any war-related shortfall.

Although OPEC has cooled a market that was starting to overheat, there is no case for complacency, argues Edward Morse of Hetco, an energy-trading firm. If war in Iraq ignites a regional conflagration, or if an invasion disrupts Iraqi supplies before Venezuelan production is back to normal, supply could drop by 5m bpd or more. His analysis suggests that, in such a scenario, OPEC does not have enough spare capacity to respond (see chart).



Yet Mr Morse also points out that markets could be oversupplied by the second quarter of the year if there is no attack on Iraq and if Venezuela's output recovers as its government hopes. By the northern-hemisphere spring, global consumption usually falls by several million bpd from its winter peak. "There might be a crisis in geopolitics," says Christophe de Margerie, head of exploration and production at TotalFinaElf, a big oil company, "but certainly not in oil markets." His worry, indeed, is that the price might collapse.

If the market becomes oversupplied, OPEC would need to scramble once again to cut production before prices fell—as they did four years ago, to around $10 a barrel. After a brief initial spike, oil prices also fell sharply after the start of the Gulf war a decade ago. Saudi Arabia's Mr Naimi is well aware of the boom-and-bust nature of oil prices. A price of

between $22 and $25 feels right, he says.

For now, only two things are certain: that oil prices will be volatile, and that Mr Naimi therefore faces a tricky balancing-act over the next few months. But who said life as a central banker was easy?

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Bond markets

Hooked

Jan 16th 2003 | NEW YORK
From The Economist print edition

Municipal-bond issuers are becoming too reliant on tobacco

MANY of America's states and cities think that they have found a remedy for their dire financial health: tobacco. This week cash-strapped California sold $3 billion-worth of bonds, to be covered by future receipts from the 1998 settlement between state governments and America's four biggest tobacco firms. California's offering dwarfs the usual municipal-bond underwriting, which more often than not amounts to less than $100m, to finance a local sewer or road.

The four companies, which between them supply 90% of Americans' cigarettes, agreed to pay $206 billion over 25 years in return for exemption from state claims. It took only a few months for bankers and politicians to cadge an advance. In late 1999 New York City raised $709m by selling bonds tied to the settlement. Others quickly followed suit, often under names that did not directly connect them with the evil weed, such as Golden State (California) and Children's Trust (Puerto Rico).

So far more than $19 billion has been raised, according to Standard & Poor's, a rating agency. This could be just the start. California, which has a huge hole in its budget, has already said it plans future billion-dollar bond issues. The states of New York—another that is ever-thirsty for cash—Pennsylvania, Virginia and Indiana have similar plans.

Tobacco-settlement bonds were carefully designed to win an A-rating from the leading agencies. Nonetheless, bond investors are unimpressed. Yields on tobacco-settlement bonds “are in their own world,” says Mary Miller of T. Rowe Price, a mutual-fund company with expertise in bonds. Many of the bonds yield between 6.5% and 7%. In contrast, similarly rated securities to finance a Delaware toll road and a New Jersey hospital yield a mere 5%-odd. The gap, by municipal-bond standards, is staggering.

There are several reasons why these bonds trade so poorly. Despite the credit rating, investors fear that punitive-damage awards could cripple the industry, or even wipe it out. According to the offer document for California's latest issue, there have been at least a dozen court decisions against tobacco companies. In one verdict in Florida, now under appeal, $145 billion was awarded against a single company, R.J. Reynolds. Although judges have reduced the most outrageous awards, the extent of reductions has been shrinking.

The greatest drag on the bond market, however, is the sheer volume of offerings tied to the tobacco settlement, all carrying the same non-diversifiable risk. The risk looks likely to grow as it is shifted from the state to the bond market. As the state sells its exposure, its interest in maintaining Americans' demand for cigarettes will fade. If demand falls, so will the revenues needed to pay bondholders.

For now, representatives from municipalities are out pitching to investment firms on the merits of tobacco bonds. One manager has been regaled by government officials with stories about how teenagers are taking up smoking in ever-greater numbers, just the sort of information to cheer a long-term investor.

At the same time, however, politicians are desperate to increase tax revenue. Cigarettes have few defenders. Twenty states have raised taxes on tobacco in the past year, and more are likely to follow. Meanwhile, new laws are restricting smoking to fewer and fewer places. “High prices and no place to smoke is deadly for consumption,” comments Mark McCray, who runs a bond fund for PIMCO, an asset-management company. Over the long term, the greatest risk to bondholders is that sales of cigarettes could collapse.

Now that the bond markets' understandable worries have pushed up yields, why are states continuing to

issue tobacco-settlement bonds at all? Indiana is considering issuing ordinary general-obligation bonds, which carry a double-A rating and currently yield about 4.5%, and then using the revenue from tobacco for repayment, but without tying the bond issue explicitly to the settlement. The state's governor, however, is opposed. Given the constraints on state budgets, the unpopularity of increased taxation and the politics of tobacco, it is more tempting to raise money through a tobacco-settlement bond, in spite of the higher cost.

States and municipalities' reliance on tobacco bonds could be storing up long-term trouble. They provide a one-off payment, but if, as seems likely, they are used to finance current spending, issuers will be left with a large hole to fill in the years to come. Like smoking itself, the bonds may become habit-forming—and bad for your long-term health.

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Trade and development

No silver bullet

Jan 16th 2003 | PORT LOUIS, MAURITIUS
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But cutting American tariffs on African goods has helped a bit

AMERICA'S trade representative, Robert Zoellick, has a taste for Africa. He goes to study its flora and fauna. Last year he became the first person in his job to make an official tour of the continent. This week he was in South Africa for talks on a free-trade deal with the Southern African Customs Union (SACU). Then he hopped over to Mauritius to discuss trade and investment in Africa as a whole. Mr Zoellick brought a sunny message: although African goods account for less than 2% of American imports, sales have started to blossom thanks to tariff-free access.

The SACU agreement will take at least two years to complete, but until 2008 the five countries in it, and 33 others, will anyway export most goods to America duty-free under the African Growth and Opportunity Act (AGOA), passed by Congress in 2000. Mr Zoellick is excited that the act is already “a proven road to success” that is boosting African trade and growth.

Piña-colada-sipping delegates in Mauritius agreed. In the first seven months of last year, AGOA countries sold goods worth $4.8 billion, mostly oil and minerals, to America. The big change, however, has been in non-fuel products: America bought $900m-worth, 50% more than two years before. Workers in Senegal specialise in exports of wedding dresses; a Ghanaian producer sells traditional clothes to black Americans in Chicago; South African car sales in America have grown 16-fold.

American officials guess that this has helped to create 38,000 South African jobs. In Lesotho, a tiny kingdom encircled by South Africa, textile investors have built 11 new factories and expanded eight others, creating 15,000 jobs. Mauritius did well from textiles and tourism before AGOA was launched, but many of its textile companies are now investing in other parts of Africa. Mauritius also plans a factory to spin yarn, to take advantage of rules stipulating that all cotton must soon, for AGOA, be sourced from Africa or America.

Anything that brings formal jobs is welcome. By December 2001 owners of new textile factories in Antananarivo, the capital of Madagascar, were worried that labour was running short, after 100,000 jobs had been created. At that point the World Bank said falling unemployment was fast cutting poverty in the city.

That said, quantifying the effects of regional trade deals is tricky. Although they create trade, they also divert capital and jobs into favoured industries and countries, and away from others. There is also a limit to what trade agreements alone can achieve. Investors fled Madagascar last year after the government collapsed. Most factories closed and almost all the new jobs were lost.

For better or worse, tariff-free access, once granted, can also become a political weapon. Repressive governments in Swaziland and Eritrea have been told they might forfeit their duty-free export status unless there are democratic reforms. Such threats of uncertainty discourage long-term investment.

America also wants something out of regional trade deals. Walter Kansteiner, assistant secretary of state for Africa, says that “Africa must kick-start its industries and kick-start Africa as a market for American goods.” And investors know that Africa's preferential treatment will not last for ever. George Bush says he will ask Congress to extend the AGOA provisions, but tariffs on textiles from other parts of the world will also drop soon. That will open the door for more efficient producers in Asia to outsell African suppliers.

If Africa cannot rely on textiles alone, it might try boosting labour-intensive farming instead. But duty-free access under AGOA has done nothing so far to help sales of farm produce. Delegates in Mauritius

this week drove by huge sugar-cane plantations. Yet growers there, in South Africa and in Mozambique have to struggle against import quotas and a low world sugar price, thanks to heavy subsidies for farmers in Europe and America.

William Thomas, a senior American congressman, told delegates that rich-world subsidies and other non-tariff barriers, such as sanitation inspections, still block imports of African foodstuffs: crateloads rot in American ports. Mr Zoellick says America will cut subsidies once other rich-world countries are ready to follow. He also promises to help African exporters follow American sanitation rules and to get more inspection staff to work. Then Africa's flora can come to him.

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About sponsorship

Derivatives exchanges

Ferscha's leap

Jan 16th 2003
From The Economist print edition

Does Eurex have the clout to defy American exchanges?

HELL hath no fury like a derivatives exchange scorned. A few hours after the Chicago Board of Trade (CBOT) decided to dump Eurex as its partner in an electronic-trading venture, the German-Swiss exchange said it would go it alone in America. Eurex announced on January 9th that it would launch an American derivatives exchange as soon as its alliance with the CBOT expires at the end of the year. The CBOT had decided to switch to another electronic trading system offered by a rival European exchange, Euronext.liffe.

AP

This response from a miffed Eurex is a direct challenge to the CBOT—and indeed to all American derivatives exchanges. The Americans certainly need shaking up. Their biggest exchanges lag most foreign competitors in their attachment to open-outcry trading (although most offer electronic trading in parallel) and to a mutual rather than a shareholder structure.

Rudi Ferscha, chief executive of Eurex, says he is offering a “very democratic market model” compared with the American pits. Eurex and its main rival, Euronext.liffe (formerly Liffe), the derivatives arm of Euronext, the merged Dutch, Belgian and French stock exchanges, are fully electronic. The CBOT, the world's oldest derivatives exchange, is a stalwart defender of the trading floor, although nowadays it says it believes in a hybrid of open-outcry and electronic trading. Hence its deal with Eurex. Eurex had insisted on a revenue-sharing arrangement, whereas Euronext.liffe has agreed to supply the CBOT with its technology for a flat annual fee. Following that, the new couple are exploring closer links. “We could extend our co-operation into the product area,” says Hugh Freedberg, the chief executive of Euronext.liffe.

This might suggest that the new partnership will push the CBOT towards becoming fully electronic. Open outcry is an anachronism, albeit one that is fun to watch. For heavily traded contracts, such as government-bond futures, it is less efficient and less fair than electronic trading.

“Open outcry is good for the guy on the floor,” says Benn Steil of the Council on Foreign Relations in New York. Dealing spreads, the difference between buying and selling prices, tend to be wider, so profits are higher for the exchange's owners. The CBOT is mutually owned by its more than 1,400 members, most of them small traders who thrive on the inefficiencies of pit trading. The two other Chicago derivatives exchanges, the Chicago Mercantile Exchange (CME) and the Chicago Board Options Exchange, are mutually owned, physical-electronic hybrids.

Eurex is determined to be an agent of change. But starting from scratch is not easy. First, Eurex needs regulatory approval as a non-American exchange. Assuming it gets the nod, it will somehow have to attract liquidity without a local customer base.

The trading volume that the Eurex alliance has built up at the CBOT is likely to remain there. Its growth has been impressive: more than half of the CBOT's trades are done with Eurex technology, including around 70% of its trading in Treasury-bond futures, the flagship contract. But that volume will probably switch “seamlessly” to Euronext.liffe's Connect, a system as good as (some say better than) Eurex's.

Eurex could buy, or merge with, a local exchange, and thus avoid the need for regulatory approval. The most likely candidates are the CME or the International Securities Exchange (ISE), America's only fully

electronic derivatives exchange. The CME, one of the leading exchanges worldwide, would be expensive, with a market valuation of about $1.6 billion. The ISE is smaller and would be cheaper, but would give Eurex a less powerful platform.

Eurex's great triumph, in 1998, was to win trading volume in Liffe's most liquid contract, the German government-bond future, and bring it home to Frankfurt. Liffe had not made the switch to electronic trading and Eurex could offer market participants greater efficiency at lower cost.

It will not be so easy for Eurex to steal contracts from American rivals. But the determination of the Swiss-German exchange and its parent, Deutsche Börse, should not be underestimated. If Eurex is even partly successful, there will be more pressure on the Chicago exchanges to give up their mutual structures, merge—and turn their trading floors into museums.

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About sponsorship

Credit derivatives

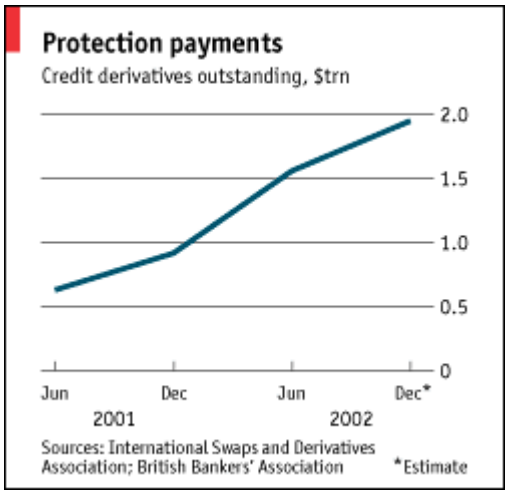
Pass the parcel

Jan 16th 2003
From The Economist print edition

Grumbles in the booming market for credit derivatives

ONE of the few roaring businesses left in investment banking these days is credit derivatives. Thanks to a massive increase last year in sales of these instruments—which allow lenders to pass on the risk that a borrower may default—credit-derivatives specialists will shortly be paid handsome bonuses. Investment banks are eagerly hiring more, even as they sack bankers of lesser breeds by the hundred. The outstanding volume of credit-derivative contracts has been put at around $2 trillion (see chart). The British Bankers' Association reckons this figure will more than double by next year.

As the quality of their assets has deteriorated, lenders have rushed to protect themselves by buying credit-default swaps, the commonest credit derivative. Thanks to such derivatives, the cost of last year's wave of spectacular defaults by Enron, WorldCom, the Argentine government and the rest fell on a much broader group of banks and other financial institutions than would otherwise have been the case. Banks, who carry most of the world's credit risk, were the main beneficiaries.



The institutions that took on the credit risk are, however, less happy. Insurance companies make up about one-third of the sellers of credit protection. They now admit that they piled into the young market without knowing enough about the risks they were taking on. Frank Ronan, global head of credit at Swiss Re, a reinsurer, says that his industry absorbed a “massive amount of risk in a relatively short period of time” and, unfortunately, did it “right at the end of a bull market.” So far, Swiss Re, SCOR, a French reinsurer, and America's Chubb Corporation have announced losses on credit-derivative products.

Having been bitten once, insurers are getting shy of selling credit protection. John Coomber, the new chief executive of Swiss Re, said this week that the company is winding down its credit-derivatives book. Dealers say that some big sellers of protection—Ambac Financial Group, Financial Security Assurance, MBIA, General Re and Zurich Financial Services Group—have reduced their activities.

Fewer sellers will mean less liquidity in the market and, possibly, more volatility in credit-default swap spreads—in effect, in the price of protection. In the medium term, prices may rise, even though they have recently fallen back from the high peaks they reached late last year.

Another worry for sellers of credit protection is the threat of insider trading. A bank that wants to lay off the risk that a borrower may default is likely to know far more about its customer's credit quality than the insurance company or bank from which it buys protection. If loan officers, who deal directly with a bank's borrowers, pass on inside information to the people buying credit derivatives, the institution on the other side of the trade may get a rotten deal.

There is evidence, says the head of credit derivatives at a French asset manager, that this has been going on. In the case of Xerox, an office-machinery company that negotiated new terms for a $7 billion credit facility last year, he believes that one bank acted to trigger its credit-default protection, on the ground that a “restructuring” of the loan had taken place. Pure investment banks with small loan books have felt disadvantaged. “We kept seeing that firms with large lending departments would always come in and buy protection at exactly the right moment,” says one dealer in New York.

PIMCO, an asset manager specialising in bonds, recently attacked the credit-derivatives market as a place where insiders use private information to bet against companies' credit quality. The ten or so investment banks that dominate the market are taking the charges seriously. The International Swaps and Derivatives Association, a trade body, is examining how the Chinese walls that are supposed to exist between loan desks and credit-derivative dealers could be buttressed. “I see addressing conflicts of interest as a natural stage in the maturing of this market,” says Ron Tanemura, head of credit derivatives at Goldman Sachs.

Not long ago, investment banks hoped that lots of industrial companies would come to the market to buy protection against non-payment by customers. This has not yet happened. Hedge funds are the latest entrants, mostly as pure derivatives traders, although a few sell protection.

Bizarrely, investment banks have found that an easy way of hedging once they have sold credit protection is to buy it from the original borrower. In a so-called self-referenced credit-default swap, a company earns fee income for not defaulting on its debt. It will post collateral to back up the exposure. This sort of contract worries some traders and regulators. It leads towards re-concentration, rather than diversification, of credit risk, as well as probable legal battles if a company's creditors see assets being seized to satisfy a self-referenced credit-default swap.

Chris Dialynas, a managing director at PIMCO, urges all corporate treasurers to ask their banks if they have taken out protection on their companies' debt, and how much. Rising credit-default swap spreads can, after all, push up a company's cost of funding. If treasurers do demand the information, one of the reasons that banks buy credit derivatives—their desire to keep a corporate customer sweet by lending even though, privately, they do not want the credit risk—might disappear.

Still dogging the market is an old debate over whether restructuring of a loan, as opposed to full default or bankruptcy, should be a credit event, meaning that a protection-seller has to pay out. At the heart of the row is the conflict of interest at banks that simultaneously lend and operate in the credit-derivatives market, which was recently brought to sellers' attention in the Xerox case.

At the moment, European banks insist on having protection against restructuring, while American sellers of credit-default swaps will accept only a strictly limited definition of it. The market, which already lacks depth, is therefore divided in two. It is still a long way from being genuinely liquid, reliable or transparent.

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Economics focus

Still bubbling

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The debate about how monetary policy should respond to asset-price changes hots up

A DECADE ago, when many central banks first set inflation targets, monetary policy looked clear-cut: the best way to deliver economic and financial stability was to keep the rate of consumer-price inflation low and stable. Yet experience has shown that price stability does not guarantee financial stability. The booms and busts in stockmarkets in Japan in the 1980s and America in the 1990s both occurred at times of low inflation. This has prompted a small but growing band of economists to suggest that inflation targeting is not enough. Sometimes central bankers may need to raise interest rates to curb sharp rises in the prices of assets, such as equities and property, so as to prevent painful consequences when bubbles burst.

Critics of America's Federal Reserve (including *The Economist*) have often argued that, in the late 1990s, it should have raised interest rates sooner. Central bankers already take account of rising asset prices, in so far as they boost spending and so future inflation. But most of them reject the idea that they should prick bubbles directly. Alan Greenspan has offered the fullest defence of why central banks should not react when asset prices climb rapidly. First, he argues, you can never tell a bubble from a more justified increase in asset prices. Second, interest rates are a blunt tool. A small rise in rates may have no effect; an increase big enough to pop an incipient bubble could cause a recession. Mr Greenspan thinks it is safer to wait for a bubble to burst by itself and then to mop up its after-effects by easing monetary policy, aggressively if need be.

Critics retort that uncertainty about whether there is a bubble or not is no excuse for inaction; central bankers always have to deal with uncertainty. Second, lowering interest rates when asset prices tumble (as the Fed has done) but not raising them when they soar creates a moral hazard that makes speculative bubbles more likely. And third, even if a rate increase does cause a recession, that may be better than the alternative. The longer a bubble is allowed to inflate, the more it encourages the build-up of other imbalances, such as excessive debt or overinvestment. The result may be a longer economic downturn.

It is these imbalances that should be the real concern of central bankers. Indeed, the debate about monetary policy and asset prices has now moved on from the question of whether central banks should prick bubbles. Framing the issue that way, argue Claudio Borio and Philip Lowe, of the Bank for International Settlements, is not helpful, because of the difficulty of identifying bubbles. It is better to think in terms of the sort of imbalances that tend to generate future financial distress. It is only when a boom in stock or house prices is combined with a big increase in debt that economic and financial stability is threatened. When asset prices collapse, debts still loom large. The case for raising interest rates is therefore far stronger when asset-price rises go hand in hand with rapid credit growth—as happened in America in the 1990s.

Breaking ranks

Until recently central bankers were publicly united in their opposition to using monetary policy to curb rapidly rising asset prices. But some are now changing their tune. Late last year, Mervyn King, the deputy governor (and governor-designate) of the Bank of England, accepted that conventional inflation targeting may not be enough. Monetary policy, he admitted, may sometimes need to be tightened in response to economic imbalances caused by rising asset prices, even if inflation is well within its target range. For example, if surging house prices foster a consumer spending and borrowing boom, this raises the risk that consumption will fall sharply in future, which could result in a prolonged undershooting of

the inflation target. If inflation falls too far, it might be impossible to cut real interest rates enough to spur demand. An early rate increase could avert all this.

Since Mr King is one of the world's brightest central bankers and has long been a big fan of inflation targeting, his views carry considerable weight. But does he now believe that central banks should abandon inflation targets, just as over the years they have dumped money-supply targets and the gold standard? Far from it. Mr King believes that the framework of inflation targeting can cope with policy dilemmas about asset prices. The solution is to look at inflation over a longer period than usual. Normally, central bankers take aim at inflation up to two years ahead. But an asset-price boom can create imbalances that, if left unchecked, might cause inflation to fall outside its target range at a more distant date. So there is a trade-off between deviations of inflation from target over the next year or two and deviations from target later. It may sometimes make sense to raise rates now, and accept that inflation will undershoot its target in the short run, in order to avoid undershooting by rather more later.

Otmar Issing, a member of the executive board of the European Central Bank (ECB), has also argued that short-run deviations from inflation targets may be desirable in order to preserve long-run price stability. Indeed, this is one justification for the ECB's much-criticised special focus on monetary growth, within its inflation-fighting framework. Paying particular attention to the money supply (and so to credit), believes Mr Issing, can help to stop the emergence of serious financial imbalances.

Central banks can no longer ignore surging asset prices by insisting that monetary policy should focus only on consumer-price inflation. Swings in asset prices can have big long-term consequences for inflation. Some central bankers have now realised they cannot afford to be so short-sighted.

Mr Borio's and Mr Lowe's paper is available at www.bis.org/publ/work114.htm; Mr King's at www.bankofengland.co.uk/speeches/speech181.pdf; and Mr Issing's at www.ecb.int/key/02/sp021205_1.pdf

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About sponsorship

Volcanoes

All hot and bothered

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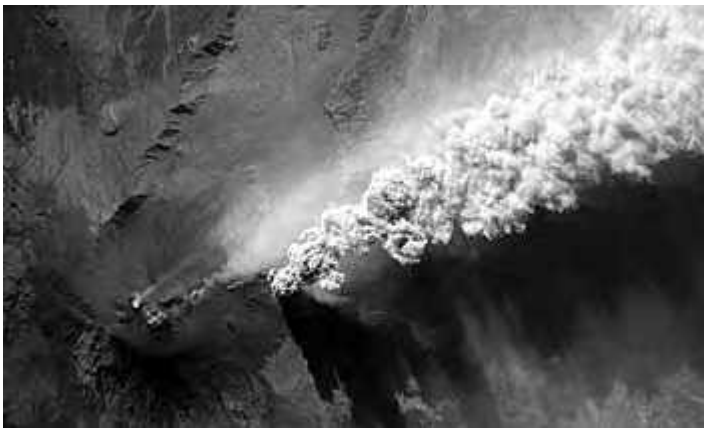

Scientists may one day be able to predict volcanic eruptions

ONE in ten of the world's people live in the shadow of active volcanoes. Vesuvius overlooks Naples, Rainier towers over Seattle-Tacoma and, most ominously of all, Popocatépetl looms above Mexico City, perhaps the world's largest megalopolis. The residents of these cities, and others like them, are sitting, in effect, on ticking time-bombs.

In the past few months, the residents of Catania, Sicily's second-largest city, located near the volcano Etna, have found that living atop a lava stream and under a shower of ash is not pleasant. Etna began its most recent eruption at the end of October. And though the intermittent ash and steady lava flow have not been good for business—over 30 people were injured at a tourist complex just before Christmas—they have been a boon to those seeking to understand volcanic eruptions.

Meanwhile, in Hawaii, where the volcanoes are among the best-understood on the planet, it is still not known whether Mauna Loa, the world's largest volcano, and Kilauea, one of the most active, are part of the same system. The two peaks are about 40 kilometres (25 miles) apart, and, according to a paper by researchers from the United States Geological Survey (USGS) in this week's *Nature*, when one moves, so does the other. But the researchers cannot explain exactly why this happens. It could be that they share a magma system, or that pressure from Mauna Loa affects Kilauea.

Unsurprisingly, there is great demand for better forecasting methods. Volcanoes move, and erupt, because magma—molten underground rock that is trapped beneath the earth's crust—escapes to the surface. Although vulcanologists can classify volcanoes endlessly, there are two basic types. The Hawaiian volcanoes, as well as Etna, have relatively runny magma, making it more difficult for pressure to build up. In mountains such as Mount St Helens in America, the magma, because it contains more silica, is stickier. These volcanoes erupt in a fashion that is both more violent and harder to predict.

Journey to the surface of the earth

The various methods for predicting when a volcano will erupt all rely on a single idea. Scientists seek to work out what pressure there is on the magma beneath a volcano, and what threshold has to be passed for the bubble of magma to be breached.

One way of doing this is by precisely measuring the shape of the ground above a volcano. This used to

be done with expensive surveying tools. According to Thor Thordarson, a vulcanologist at the University of Hawaii, the rise of cheap differential global positioning system (GPS) sensors over the past decade has greatly expanded both the accuracy of the surveillance and the number of volcanoes that can be looked at. Dr Thordarson says that it is important to monitor volcanoes continuously—even those thought to be inactive—because it is only by accumulating large amounts of “background” data that scientists will be able to get a better idea of what the signature prefiguring an explosion looks like.

Even though GPS sensors have become relatively cheap, the cost of covering the world's 1,500 known active volcanoes with them would be prohibitive. Instead, scientists have begun using satellite-based systems that do not require ground-based components. This allows blanket coverage of the entire world.

Envisat, a satellite launched last March by the European Space Agency, is the most advanced craft of this type. It is now finishing preliminary tests that calibrate it against ground-based sensors. *Envisat* is equipped with “interferometric synthetic aperture radar”. This is a form of radar that can measure deviations in ground elevation with millimetre-scale accuracy.

Envisat also has sensors that, by recognising the characteristic optical signature of various substances in the atmosphere, can detect the presence of specific gases, such as sulphur dioxide. These may indicate an imminent volcanic eruption. Other satellites, such as America's *Landsat*-7 and *Terra*, both launched in 1999, have instruments that look in the thermal infra-red part of the spectrum. This allows them to detect hot and cold spots on volcanoes. A sudden rise in temperature sometimes precedes a volcanic eruption.

Mike Abrams, a scientist at America's space agency, NASA, says that the limiting factor on all such satellites is, surprisingly, not technological, but temporal. The orbits in which they are placed allow them to observe the entire earth, but they cannot pass over a particular spot more frequently than once every 15 days or so. Dr Abrams argues that more satellites are needed to gather sufficient data on the earth's volcanoes. Existing satellites, though, do at least serve as an early warning system. If one of them detects something amiss, local vulcanologists can then intensify their local monitoring efforts. If necessary, they can even initiate an evacuation.

If predicting when a volcano will erupt is difficult, predicting exactly how it will erupt is even trickier. But careful monitoring of events can give people just enough time to get out of the way.

Beyond the clouds

More dangerous than lava, which typically flows slowly, are *lahars*, flowing mixtures of rock, debris, ash and water, which are often set off when hot lava meets cold snow. *Lahars* can travel down a mountain as fast as 60 kilometres per hour. In 1985 a *lahar* set off by the eruption of the Nevada del Ruíz volcano in Colombia killed 25,000 people when it swept through the town of Armero. With acoustic flow monitors, such as those developed by the USGS in the last five years, such a tragic loss of life might have been averted. The flow monitors are seismometers, which measure vibration, and are sensitive to higher frequencies than those used to record earthquakes and volcanic activity. This lets them hear *lahars* from a long way off, creating a valuable extra hour of time that can be used to evacuate. Such systems are now in place all round the world.

Volcanic eruptions are dangerous not only to people on the ground, but also to those in the air. When Alaska's Redoubt volcano erupted in December 1989, ash spewed into the air, causing all four engines of a passing Boeing 747 to lose power. After the plane plunged more than 10,500 feet towards the ground, the pilots managed to restart the engines and land safely. According to the USGS, more than 80 commercial aircraft have run into unexpected volcanic ash in the past 15 years, with the resulting damage costing hundreds of millions of dollars. Since 1989, aviation has made great progress in monitoring volcanic-ash plumes with satellites and getting the information to air-traffic controllers in time for them to divert aircraft to alternative routes.

If the optimists are right, the threat from volcanoes could one day become a known one. There is a problem, though. The work that needs to be done relies on the continual use of satellites and ground monitoring. It is not particularly sexy, or interesting, new science. Vulcanologists are now issuing a new warning: that it is particularly hard to get funding for this kind of work. This is something that everybody should get hot and bothered about.

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Ornithology

Chicken run

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Birds that don't fly may be using their wings to run uphill

Winging it

HOW did the chicken cross the road? According to scientists, at least, it flapped to the other side. Kenneth Dial has been studying bird flight for almost 20 years, and has been intrigued by birds such as grouse and pheasants, which spend much of their time on the ground—despite having wings. On the face of things, that seems odd. Flying birds are hatched naked, coddled in the nest, but do not start proper aviation lessons until they have been plumped up to the size of their parents. Ground birds, though, are hatched with feathers, and must survive from the day they crack out of the shell.

Dr Dial wanted to find out if ground birds might be using their wings. In his flight lab at the University of Montana in Missoula, he and two assistants recorded the activity of chukar partridges using high-speed video. The results of his work are reported in this week's issue of *Science*.

The film, which captures movement at up to 1,000 frames per second, revealed something unobservable to the naked eye: the birds seemed to use their wings to help them run up steep slopes. He dubbed this “wing-assisted incline running”, or WAIR, and set out to quantify its usefulness. It seems that new hatchlings could run up slopes steeper than 45° if they beat their wings vigorously, and four-day-olds could scale 60° inclines. By the time the birds had reached 20 days, some could make sheer vertical ascents of more than five metres, and could even get round overhanging slopes of up to 105°.

It seemed that wings were a great help. But Dr Dial wanted to be sure, so he compared the accomplishments of normal partridges with birds that had their wing feathers clipped to half their normal surface area, and to even less fortunate fowl whose main flight feathers were entirely plucked. In the youngest, clipping and plucking feathers did not make much difference. But when the birds were four or five days old, the less feathered started to show their deficiencies. Plucked birds could never ascend more than a 60° incline. Clipped birds, meanwhile, could not get up 90° slopes.

Dr Dial reckons that the wings act rather like spoilers on a racing car, improving traction. Wing strokes press the animal towards the ramp and help the bird stick to the surface rather than slipping over it. To confirm this, Dr Dial measured the direction in which the birds were forced by their wings, by mounting accelerometers on each animal's torso. He found that the birds are, for a substantial part of the wingbeat cycle, forced into the incline. Rather than flapping from back to belly, their wings are moving more like limbs—reaching forward and scooping backward.

Up to this point, Dr Dial has not weighed in on the debate about the evolution of flight. Now he feels he must. There are two divided camps. On one side are the people who believe that the first proto-birds climbed into trees and that, as they glided down, they figured out how to flap. But Dr Dial argues that none of the gliders that currently share the earth with us—such as frogs, lizards and squirrels—actually bother to flap. “Gliding is perfectly functional in its own right,” counters Dr Dial. The second camp argues that bipedal dinosaurs with partial wings learnt to use them to fly.

Both camps are claiming victory, believing that support for their theory is found in Dr Dial's results. Dr Dial, though, thinks his data point to an avian third way: that wings are for more than flying (or gliding,

for that matter). Chickens everywhere can rest happy in the knowledge that their wings are more than just beer snacks.

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Microbiology

The life in an ocean wave

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The ocean is a rich soup of unknown microbes

THREE centuries ago, a scientist called Van Leeuwenhoek discovered that the sea contained some “little animals”, now known to be bacteria. But only recently has it been realised that the sea is awash with tiny, strange, life-forms.

Small as they are—bacteria are from 0.1 to a few microns long (a micron being a millionth of a metre)—microbes number in the thousands of trillions of trillions worldwide. This gives them a huge role in the chemistry of the planet. Their metabolism recycles energy and chemicals between the air and the oceans. At a recent conference on marine diversity, Farooq Azam, a microbiologist at the Scripps Institution of Oceanography, in La Jolla, California, declared that, without microbes, models of the ocean were “incomplete”.

Traditionally, the way to study microscopic ocean life has been to put a drop of seawater on to a plate coated with nutritious jelly and see what grew. But the problem with this—known as the “great plate count anomaly”—is that only a tiny fraction of what can be seen in the water can be grown. So in the late 1980s, Stephen Giovannoni at Oregon State University applied a new process that multiplies small amounts of DNA into quantities that can be analysed. He found lots that looked nothing like the genes of any of the cells that would grow on existing cultures. Genetic analysis suggested that 11 organisms, nine bacteria and two archaea, predominate in seawater.

The presence of the archaea was a particular surprise. These ancient, single-celled organisms, which are similar to bacteria, have mastered life in hostile conditions. It used to be thought that they were found only in extreme environments. David Karl, a microbiologist at the University of Hawaii, and Edward DeLong of the Monterey Bay Aquarium Research Institute in California, have since discovered that the sea is full of archaea. Close to the surface, archaea are outnumbered by bacteria, but below 150 metres their share starts to rise.

The pair have also found that life in the ocean wave is much stranger than had been imagined. Some bacteria are like tiny green plants that use conventional photosynthesis to generate energy from carbon dioxide, water and sunlight, expelling oxygen. Others have evolved variations of photosynthesis that do without the oxygen atoms bound into water molecules, or that use water but produce no oxygen. Some have developed unknown ways to make use of other chemicals dissolved in the water, such as organic matter from broken-down cells, or scraps of loose DNA that waft around in the sea. Archaea, which include species that thrive on salt or sulphuric acid, are even more baffling.

Understanding all these creatures will ultimately depend on being able to culture them, and watch them grow. This is hard if it is not known what they live on. To date only three of the 11 most abundant creatures have been successfully cultured. Last year, scientists managed to refine the culturing process to grow SAR-11 (so named because it was first identified in water from the Sargasso Sea), one of the commonest bacteria in the ocean. The next step will be to discover where it finds the carbon and energy that are the basic inputs to its metabolism. That will provide one more thread in the tangle of life far offshore.

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Mobile phones

Think before you talk

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Can technology make mobile phones less socially disruptive?

THE mobile phone is a paradoxical device. Its primary function is social: to enable its owner to communicate with other people. At the same time, though, using a mobile phone can seem profoundly anti-social, not least to people in the immediate vicinity. In restaurants, theatres and museums, on trains, or even standing in the supermarket checkout queue, there is no escape from chirping and bleeping phones, nor from the inane conversations of their owners. Last year Philip Reed, a New York councillor, proposed a law that would prohibit the use of mobile phones in “places of public performance”, such as theatres, art galleries and concert halls, punishable by a $50 fine. But his proposal has been derided as unenforceable. Might a technological approach to taming the mobile phone, and the behaviour of its users, be more successful?

Crispin Jones, Graham Pullin and their colleagues at Ideo, an industrial-design company, think the answer is yes. (Ideo is responsible for designing such products as the Palm V pocket computer, the original Microsoft mouse, the TiVo personal video-recorder and the world's most high-tech dressing rooms, at Prada in New York.) As part of an internal research project, the team designed five prototype “social mobiles” which modify their users' behaviour to make it less disruptive.

For example, the first phone, called SoMo1, gives its user a mild electric shock, depending on how loudly the person at the other end is speaking. This encourages both parties to speak more quietly, otherwise the mild tingling becomes an unpleasant jolt. Such phones, the designers suggest archly, could be given to repeat offenders who persistently disturb people with intrusive phone conversations.

SoMo2 is a phone intended for use in situations (such as a hushed art gallery) where speaking is inappropriate. Manipulating a joystick and a pair of saxophone keys controls a speech synthesiser that produces an expressive range of vowel sounds for non-verbal communication: “Hmm? Yeah.” The third phone, SoMo3, resembles a small, clarinet-like musical instrument. Dialling is done by holding down combinations of keys and blowing; tunes replace phone numbers. “The public performance that dialling demands acts as a litmus test of when it is appropriate to make a call,” say the designers.

SoMo4 replaces ringtones with a knocking sound: to make a call, select the number and knock on the back of the phone, as you would on somebody's door. The recipient of the call hears this knock (cleverly encoded and relayed via a short text-message) and decides how urgent the call is. How you knock on a door, says Mr Pullin, is freighted with meaning: there is a world of difference between tentative tapping and insistent hammering. SoMo5 has a catapult-like device that can be used to trigger intrusive sounds on a nearby user's phone, anonymously alerting them that they are speaking too loudly.

None of these phones is intended as a commercial product; the design team simply hopes to provoke discussion. It seems to be working. The project has just won a prize from the Agency of Cultural Affairs in Japan, perhaps the country where both social etiquette and mobile phones are taken more seriously than anywhere else. And behind these silly-sounding phones is a serious point. Much is made of “user-centric” design, says Mr Pullin, but in the case of mobile phones, the people surrounding the user need to be considered too.

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About sponsorship

George Bush

The sphinx in the White House

Jan 16th 2003
From The Economist print edition

Reuters

Two books on the president that reflect also on their authors

Get article background

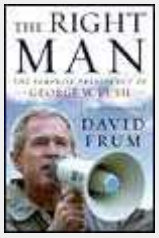
SELDOM has a political leader prompted more uninformed comment than George Bush. To say this is not to repeat the familiar gripe of American conservatives that Europeans depict him as a nitwit, though they do (this week, a play opened in London called “The Madness of George Dubya” in which the leader of the western world wanders around in his pyjamas clutching a teddy bear). Most Americans still know relatively little about their president. They tend to side with him, or be against him, by instinct.

This ignorance seems to suit Mr Bush. He keeps press and television at arm's length and runs the least leaky White House in recent memory. Hence the importance of David Frum's book. Mr Frum, a Canadian neo-conservative, worked for 13 months as one of his speechwriters: he shares credit for the phrase “axis of evil” in the 2002 state-of-the-union address. Having left the White House, he has now broken the Bush vow of silence.

The first third of “The Right Man” is exactly what is needed—an incisive portrait by an articulate semi-outsider. Mr Frum is plainly on Mr Bush's side, but he depicts the president as a less cuddly man than many of his supporters would like to believe—a sharper, more petulant, less forgiving father of the nation. The Bush people, he confirms, have none of the Clintonites' intellectual sparkle: Donald Rumsfeld is the only really brainy member of the cabinet. Mr Frum details their squabbles—particularly the rivalry between the president's two closest advisers, Karl Rove and Karen Hughes—and dissects their early mistakes made over things like rules about arsenic in drinking water.

But these barbs set up compliments. The tightly-controlled, sarcastic Bush may not be as nice as the amiable buffer of common lore, but he is a stronger leader. In this White House, Mr Frum makes clear, there are no puppeteers, and only one decision-maker: Mr Bush's praise is what his underlings, including Mr Rove and Ms Hughes, spend their days pursuing, his anger what they try hard to avoid. As for that unintellectual worthiness, Mr Bush has deliberately fashioned an anti-

The Right Man: The Surprise Presidency of George W. Bush
By David Frum



Random House; 320 pages; $25.95

Buy it at
Amazon.com
Amazon.co.uk

Made in Texas: George W. Bush and the Southern Takeover of American Politics
By Michael Lind

Clinton administration where loyalty is central, where ties and dark suits are always worn, where “damn” is considered a swearword and where voices are lowered, as if in church.

New America Books/Basic Books; 201 pages; $24

Buy it at
Amazon.com
Amazon.co.uk

Indeed, religion often seems to be at the heart of it. Time and again, Mr Frum—a sceptical, intellectual Jew—is blind-sided by the earnest Protestants working around him. The first words he hears in the White House are “Missed you at Bible study”. Every cabinet meeting begins with a prayer. Evangelical Christianity, argues Mr Frum, sits at the core of Mr Bush's own reformed personality: his confidence stems from his belief that “the future is held in stronger hands than his own.” It is this inner strength that helped make Mr Bush, in Mr Frum's view, the right man after September 11th.

Sadly, after that crucial date Mr Frum's book stalls. The section on the “axis of evil” speech is wordy. Worse, he stops observing and starts opining. A riveting read declines into a neo-con rant, mainly about the Middle East, where “Palestinian” seems always to be coupled with “terrorism” and “Israeli” is never followed by “settlements”. The Democrats, the Europeans and sometimes Colin Powell are no longer analysed, just assaulted.

In “Made in Texas”, it is Mr Bush who comes under assault. Michael Lind—another clever writer though this time of a more leftish disposition—concentrates on his own home state of Texas, surely a crucially important part of Mr Bush's make-up (and one oddly that Mr Frum largely ignores).

Mr Lind treats Texas as a southern state masquerading as a western one, and believes that Mr Bush is involved in a similar disguise. He acknowledges a modernising, meritocratic, free-trading side to the state, but sees the Texas that spawned Mr Bush as a nasty brew of aristocracy, racism and militarism, with a strong seasoning of Protestant fundamentalism.

Mr Bush, in Mr Lind's view, is the first southern conservative to be elected president since James Polk in 1844. Worse, he has set about reordering the world in a similarly reactionary way, pushing religion into domestic policy and militarism back into diplomacy. Like Mr Frum, Mr Lind is preoccupied by conservative America's rallying to Israel, but only because he sees it as a reawakening of the American south's unpleasant heritage. “The gun-toting, Bible-thumping Anglo-Celtic Texan in former Mexican and Indian territories, with his admiration for the Hebrew patriarchs and professed devotion to the Ten Commandments, is remarkably similar to the gun-toting, Torah-thumping Israeli settler in the occupied Arab territories.”

Mr Lind's attack is more original than Mr Frum's, and he exposes many sins, big and small, of right-wing Texans. Who knew that they paid for a Cadillac as a wedding gift for the witch-hunting Senator Joe McCarthy, that Waco was a hotbed of the Ku Klux Klan or that Robert E. Lee's birthday was a state holiday till the 1970s?

Yet Mr Lind's Bush seems further from the truth than Mr Frum's. Would such a southern reactionary really have made his name in education, made his party reach out to Mexican-Americans, promoted so many blacks or used the United Nations to tackle Iraq? From his conduct as president so far, it is hard to believe that Mr Bush's own deepest values are those of an imperialist plantation owner.

These books lift the veil on Mr Bush a little. They reveal perhaps more about their authors' own attitudes. The man in the White House is proving more of a sphinx than friends or foes expected.

The Right Man: The Surprise Presidency of George W. Bush.
By David Frum.
Random House; 320 pages; $25.95

Made in Texas: George W. Bush and the Southern Takeover of American Politics.
By Michael Lind.
New America Books/Basic Books; 201 pages; $24

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Christmas crossword prizewinners

Make laughter not war

Jan 16th 2003
From The Economist print edition

A boat can do either

TOO easy, said some solvers of this season's prize crossword, indeed designed to be rather more so than last time round. Thank goodness, said some others. Which did not stop one entrant, in defiance of the world and the anagram alike, inventing an American defence secretary called Donald Rumsfell, and another appointing Tofi Annan to run the United Nations. Such is fame. And more than one, faced with —A—S for “a denizen of the deep?”, too hastily rushed into its JAWS, rather than pull out the BASS intended.

Others objected to the whole emphasis on the Middle East. Couldn't we give it a rest one week in 52, they asked, and what were we doing anyway bringing politics into sport? Nay, conducting covert propaganda: TONY BLAIR “only a bit confused—and right”, forsooth. Well, his views may be right or wrong, but does his name end in an R or doesn't it?

They all had a point, but only two, alas, can have a prize: Thomas Denne, of Neuilly, just outside Paris, and Sophia Pugsley, of Cullompton, in Devon. May their copies of a centennial edition of Jerome K. Jerome's “Three Men in a Boat” act as a reminder that water can carry the weapons of laughter as well as war.

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Arabs and Americans

Innocent error

Jan 16th 2003
From The Economist print edition

HUNTING the causes of anti-Americanism has become a post-September 11th preoccupation. Why do many Arabs not love America as much as America believes it should be loved? Douglas Little, a history professor at Clark University in Massachusetts, finds his basic answer in Mark Twain's "Innocents Abroad", the tale of a group of Americans who visited the Middle East in 1867. Although Twain was rudely intolerant of his Muslim hosts ("a people by nature and training filthy, brutish, ignorant"), his ironic eye gauged the less happy consequences of that impulse to remake the world in America's image, combined with a lack of understanding of the peoples to be remade.

The misunderstandings, argues Mr Little, have been fed into the system by a diet of popular culture that panders to the stereotype of Arabs as backward and congenitally violent. In an opening chapter on how the Middle East plays in American minds, he shows how moments in Middle Eastern history used to be reported in the *National Geographic*, a popular magazine that at least at one time was a window on the world for millions of middle-class Americans. The bland picturesque coverage, he says, showed Arabs as exotic orientals, endlessly highlighting "the widening political and cultural gap between Occident and Orient in the Middle East".

Mr Little is shocked by Disney's "Aladdin" for depicting an oriental sheikdom of "frightful thugs sporting turbans, daggers, and thick accents". This is overdoing it. Orientalist stereotyping, as Edward Said has well argued, leads easily to demonisation. But do pantomime characters enter so deep into the subconscious?

Yet, as Mr Little conscientiously pursues America's ties, good and bad, to the Middle East over the past half-century—in eight solid chapters, covering oil, Israel, evolution versus revolution, the cold war, the Gulf war and so forth—his theme of cultural imperialism faithfully re-emerges. America, he writes sorrowfully, has the "tendency to underestimate the peoples of the region and to overestimate America's ability to make a bad situation better."

It is a long way from Aladdin to Osama bin Laden. But it was, or so Mr Little argues, America's well-meant determination to use its wealth and power to make things better, in the sense of more modern, more western and more like itself, that Mr bin Laden, and those who follow him, saw as shaking the foundations of their beliefs.

American Orientalism: The United States and the Middle East since 1945.
By Douglas Little.
University of North Carolina Press; 424 pages; $34.95.
I.B. Tauris; £24.95

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By Douglas Little

University of North Carolina Press; 424 pages; $34.95.
I.B. Tauris; £24.95

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Fishing

None finer

Jan 16th 2003
From The Economist print edition

THE shad and the eel, the respective subjects of these two good books, are among the finest fishes to eat—never mind the bones of the shad or the looks of the eel. Both lead extraordinary, well travelled lives, and they pass each other on instinctual breeding runs that end in death. Like salmon, North Atlantic shad are anadromous—they ascend to their native river to spawn—while the two species of eel are the opposite, descending rivers and estuaries to breed in the Sargasso Sea (most schoolchildren know this, and ichthyologists can add little more). Sometimes, as John McPhee discovered when he dangled a landed shad in the water, the eel not only runs past the shad, it runs through it.

Mr McPhee's book is about the place of the American shad, *Alosa sapidissima*, in the national life. It follows familiar themes of his—human and geological time scales, our control of nature (dams that once impeded shad runs are being pulled down). Given the passionate place that catching and killing shad holds in his life, the work is also a probing of the author's own actions and beliefs. Mr McPhee, who writes for the *New Yorker*, where writer's block is approved of, writes with slow, limpid precision, teasing out from his subject the last filigree of detail and insight. The result is a fishing classic.

Tom Fort's history of eel-catching—in ditch, pond, river and on mudflat—is essentially European. He has an entertaining angler's column in the *Financial Times*, and his approach is breezy. Bound by deadlines, if he turns up at the wrong hour to watch an old-hand eel man on his mudhorse, he does not always come back. Although Mr McPhee describes the dissection of a shad, guided and videotaped by an anatomist friend, Mr Fort cheerily spares readers details of the eel's "epidermic attributes". He calls the fish "our slippery friend", a jocundity that would appal Mr McPhee. He even admits to not having eaten elvers: though ignorant of the taste, "with a couple of mouthfuls of true angulas retailing at about $50", he had "no great inclination to find out." Surely his newspaper could have sprung him the cash.

Eels remain a mystery. Though the breeding ground has been known for almost a century, thanks to eel larvae recorded in the Sargasso, no eggs (Seamus Heaney's "slicks of orphaned spawn") have been found, and only one adult eel—a single specimen—has ever been caught in the North Atlantic. Time is short to learn more. The shad populations in most American rivers are healthy enough. The Atlantic eel is in ruinous decline, perhaps because ocean currents are slowing, but also because elvers are overfished, especially in France, and because human carelessness has introduced a parasitic worm from Asia that causes Pacific eels little harm but ravages the Atlantic kind.

The Founding Fish.
By John McPhee.
Farrar, Straus and Giroux; 358 pages; $25

The Book of Eels.
By Tom Fort.
Harper Collins; 287 pages; £16.99

The Founding Fish
By John McPhee

Farrar, Straus and Giroux; 358 pages; $25

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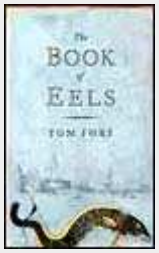
The Book of Eels
By Tom Fort



Harper Collins; 287 pages; £16.99

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About sponsorship

Contemporary art

Erotic bulbs and the good hair day

Jan 16th 2003
From The Economist print edition

Meet Kutlug Ataman, the Pedro Almodóvar of the art world

Keep the hippeastra flying

HE IS a film-maker-turned-artist, and he shares with the celebrated Spanish director a sympathy for the women, divas and transvestites who populate most of his work. Like Mr Almodóvar, the Anglo-Turkish Kutlug Ataman is openly gay and is drawn to the eccentric extremes of society. His most famous recent work chronicles a year in the life of an obsessive British bulb fancier, a woman so attached to her hippeastra that she takes photos of her favourite flowers with her whenever she must, regretfully, leave her West London home. Although some viewers may smirk, Mr Ataman sees her, as he sees all his subjects, as kindred spirits. “The women I record in my films are both true individuals and extensions of myself. I am particularly interested in divas and transvestites because they are extreme individuals who are constantly performing their personalities,” he says of his distinctive filmic portraits. “I am not observing them in a voyeuristic way; my films are a form of self-expression.”

Mr Ataman's four-screen film installation, “The Four Seasons of Veronica Read”, became the surprise hit of last year's Documenta, the international contemporary art show held in the German town of Kassel every five years that can make or break reputations. Normally tight-lipped critics raved about the “flower lady film”—its bulb fertilisation scene was at once comic and erotic and provided a rare moment of light relief in the strait-laced exhibition. Suddenly Mr Ataman shot from being the art world's best kept secret to becoming its darling. On February 11th a show of his starts at London's Serpentine Gallery. His work also opens soon at two other London venues, and later this year in The Hague. Since Documenta, the five editions of the Veronica Read film have sold out and his work has been purchased by private collectors and museums such as the Ludwig in Vienna and the recently opened Pinakothek der Moderne in Munich.

“It's funny,” says the 41-year-old artist. “I always behaved as though I was famous—I guess that's the diva in me. I didn't think it would take five years.” Nonetheless, Mr Ataman remains surprised by his success in the art world and unsure whether he belongs there. He left Turkey after the military coup in 1980 and attended film school at the University of California, Los Angeles. When he returned to Turkey in the late 1980s, his first feature-length film, “Lola and Bilidikid”, was accepted at the Berlin film festival and managed to make a profit on the art house circuit. He was poised to work his way through the independent film world when he met Rosa Martinez, the influential curator of the 1997 Istanbul Biennale, in an Istanbul bar. As he wondered aloud where he could find a cinema willing to show “Semiha B. Unplugged”, his eight-hour monologue of the 80-year-old Turkish opera diva recounting her life, Ms Martinez suggested he present it as a work of art in her exhibition. After all, no one could be expected to watch it from beginning to end (“Even the most devoted viewers have to go to the loo,” quips Mr Ataman), so instead the audience was invited to walk in and out of episodes of Semiha's life as she chatted her way through a history of Turkey in the 20th century, from Ataturk onward, in which she is invariably the star.

A different kind of story

Rather than a narrative film, the work becomes a moving image self-portrait made out of Semiha's recollections of her life. Whether she tells the truth or a lie is not important. The point is that as she tells her story to the world, continually recreating herself in words, like an aged, modern-day Scheherazade.

Mr Ataman's low-tech, hand-held camera both makes the film more intimate—Semiha looks as though she is speaking directly to the viewer—and constantly reminds us that it is a fabrication. He has shot a cross between a confession and chatty gossip, a documentary and a talk show.

Showing films in art galleries is nothing new; artists have been doing it since Andy Warhol started the trend in the 1960s. But it seems to be undergoing a renaissance at the moment. Mr Ataman believes the gallery is a particularly effective venue for his work because, as viewers walk in and out of his films, everyone has a unique experience. No one sees the same parts of Semiha's or Veronica's life. Viewers make up their own montage as they encounter his installations. It may seem frustrating that he gives only snippets of lives, that there is rarely a beginning, middle and end, and that there is no big message. But Mr Ataman prefers limited information because he believes that comprehensiveness is impossible: we can never know the whole story, no matter how much someone says. “I'm not interested in facts,” he explains, “I'm interested in pointing to how people tell their story and how they manipulate the facts.”

Mr Ataman's work is physical as well as verbal; personal as well as public. “Women Who Wear Wigs”, which premiered at the 1999 Venice Biennale, documents the funny-sad stories of four Turkish women wearing wigs for different reasons: one is an activist hiding from the police, another is a religious student who covers her head with a wig after veiling it with a scarf was forbidden on campus, another is a transvestite whose head the police shaved and the last one is a newscaster undergoing chemotherapy. Although their stories touch larger issues of political, religious and sexual control in Turkey, their experiences are gripping on a personal level. Anyone watching will be absorbed by these tales of disguise and self-transformation.

Mr Ataman's experiments with film strike a chord because they pose questions about the human need for self-expression and freedom. His characters exist at the margins of society and are able to free themselves from its grip, even as they struggle to be accepted. As their interminable true confessions draw us in, they also act as parables of a knowledge culture which stimulates an appetite for information without giving satisfying answers.

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About sponsorship

Bestsellers

What the world is reading

Jan 16th 2003
From The Economist print edition

As war looms, what are Europeans reading?

THE Dutch are devouring the recipes of a British celebrity cook and the revelations of a former health minister, in trouble for spilling secrets. Besides pop tarts and self-help, the French are drinking in books on workers' slang and café conversations. Their one concession to world affairs is a wacky book arguing that the Bible contains coded predictions of the September 11th attacks.

In Germany and Spain, the tone is more serious and the mix more eclectic. Germans are lending an ear to America's brashest anti-establishment left-winger, Michael Moore (also a bestseller in his own country) as well as to the more sober (but also critical) assessment of American foreign policy by Peter Scholl-Latour. Jana Hensel offers personal recollections of the often awkward coming together of east and west Berlin, and Jörg Friedrich asks whether the bombing of German cities during the second world war was not a war crime.

Spaniards are reading up on Basque nationalism, as well as on Gabriel García Márquez, Colombia's literary superstar, who has published a memoir, on Waris Dirie, a Somali supermodel, and on how to be a Japanese geisha.

Bestsellers

	DUTCH NON-FICTION	FRENCH NON-FICTION
1	**Blinde ambitie** *by Eduard J. Bomhoff* Minister's diaries	**Mes secrets** *by Lorie* Pop starlet comes clean
2	**Het zwijgen van Maria Zachea** *by Judith Koelemeijer* Multigenerational family chronicle	**Je voulais juste rentrer chez moi** *by Patrick Dils* Convicted of murder at 16
3	**De geboorte van een gezin** *by Daphne Deckers* Starting a family	**J'vous ai apporté mes radios** *by Guy Carlier* Radio satirist's greatest hits
4	**Jamie** *by Jamie Oliver* Celebrity cook's recipes	**Le parler des métiers** *by Pierre Perret* Dictionary of workers' slang
5	**De larf** *by Midas Dekkers* Growing pains explained	**Pourquoi les hommes n'écoutent jamais rien...** *by Allan and Barbara Pease* Figuring out the opposite sex
6	**Happy days met the naked chef** *by Jamie Oliver* More celebrity recipes	**Brèves de comptoir** *by Jean-Marie Gourio* Overheard café conversations
7	**The naked chef is terug** *by Jamie Oliver* Still more celebrity recipes	**Bien manger pour être au top** *by Jaques Fricker* Eat yourself healthy
8	**The naked chef** *by Jamie Oliver* Even more celebrity recipes	**La Bible: Le code secret** *by Michael Drosnin* Biblical conspiracy theory
9	**Anna** *by Annejet van der Zijl* Biography of Dutch children's writer	**Qui étaient nos ancêtres?** *by Jean-Louis Beaucarnot* How the French lived
10	**Hoe word ik een rat?** *by Joep P.M. Schrijvers* Getting ahead in the rat race	**Catherine II de Russie** *by Hélène Carrère d'Encausse* Biography of Catherine the Great

	GERMAN NON-FICTION	SPANISH NON-FICTION
1	**Warum Männer lügen und Frauen dauernd Schuhe kaufen** *by Allan and Barbara Pease* Figuring out the opposite sex	**Vivir para contarla** *by Gabriel García Márquez* Magic realist's memoirs
2	**Nichts als die Wahrheit** *by Dieter Bohlen* Pop star's confessions	**ETA: El saqueo de Euskadi** *by José Díaz Herrera and Isabel Durán* Workings of a terrorist organisation
3	**Stupid White Men** *by Michael Moore* What's wrong with America today	**Con buena letra** *by Joaquín Sabina* Singer on his songs
4	**Östlich der Sonne** *by Klaus Bednarz* Journalist's Siberian odyssey	**Amanecer en el desierto** *by Waris Dirie* Supermodel returns to Somalia
5	**Der Brand** *by Jörg Friedrich* Was the bombing of German cities a war crime?	**Los caminos perdidos de África** *by Javier Reverte* Third in series of African travelogues
6	**Der Herr der Ringe: Die zwei Türme** *by Jude Fisher* Tolkien film tie-in	**Vida de una geisha** *by Mineko Iwasaki* Guide to geishadom
7	**Kampf dem Terror–Kampf dem Islam?** *by Peter Scholl-Latour* Veteran journalist questions America's war on terror	**Momentos estelares de la humanidad** *by Stefan Zweig* Swiss philosopher on world history
8	**Zonenkinder** *by Jana Hensel* What happened when the wall came down	**La tribu atribulada** *by Jon Juaristi* Anti-Basque polemic
9	**Duden: Die Deutsche Rechtschreibung** *published by Bibliographisches Institut, Mannheim* Spelling and grammar reference book	**El rompecabezas de la sexualidad** *by José Antonio Marina* Meditations on sexuality
10	**Die Glücksformel** *by Stefan Klein* Formula for happiness	**Libro del desasosiego** *by Fernando Pessoa* Portuguese poet's autobiography

Sources: *Libris, Livres Hebdo, Focus, El Cultural* Descriptions by *The Economist*

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About sponsorship

Leopoldo Galtieri

Jan 16th 2003
From The Economist print edition

Leopoldo Fortunato Galtieri, a failed dictator, died on January 12th, aged 76

EPA

THE dictatorship of General Leopoldo Galtieri lasted only eight months, one of the shortest in the murky annals of repression. He might have been forgiven by at least some of his fellow Argentines for his ruthlessness, but not for his stupidity. Laurence Peter, a Canadian academic, made a study of stupid people in positions of power. In “The Peter Principle”, published in 1969, he came up with the now much-quoted aphorism, “In a hierarchy, every employee tends to rise to his level of incompetence.”

Incompetence in civilian life, in commerce or in the professions, can have serious consequences. In government it can be disastrous, as it was for Argentina in 1982, when General Galtieri was the unelected military president. Argentina was going through one of its regular periods of high inflation and poor growth. A united opposition was demanding a return to democracy. Day after day crowds gathered outside the Casa Rosada, the presidential palace in Buenos Aires, to jeer at the general. The protests were largely forgotten when he announced that Argentina was to seize the Falklands, a small group of islands in the south Atlantic some 480km (300 miles) off Argentina that had been a British possession since 1833, and had a population of 1,800 loyal Brits and a lot of sheep. The Malvinas, to give them their Spanish name, had long been claimed by Argentina, and the general's decision to “return” them satisfied a deep-rooted desire in most of his countrymen.

Such a patriotic gesture is an old remedy, and has had a degree of success. Hitler reinforced his popularity by sending troops into the Rhineland in 1936 against French wishes. These days Pakistan's self-appointed president, General Musharraf, is routinely bellicose towards India.

On April 2nd 1982 Argentine troops landed and overwhelmed the small British garrison. The crowds outside the Casa Rosada made General Galtieri the happy man of our picture. Perhaps he could become another Juan Domingo Peron, the populist leader and national icon who had emerged from the army in the 1940s? It had all seemed so easy. Why had no one taken possession of the islands before? Possibly because previous rulers had not assumed, as General Galtieri had, that Britain was a mangy lion that would accept defeat.

Southward ho!

Britain, under Margaret Thatcher, buckled on its rusty armour and dispatched every warship, troopship and rowing boat available to the Falklands, 13,000km away. General Galtieri turned for support to the United States president, Ronald Reagan, who had praised him as a “magnificent general” for clamping down on leftists. For a while the Americans did seem to wobble, sending an envoy to Britain and Argentina to press for a “peace deal”. But Mr Reagan was a pal of Mrs Thatcher and gave Britain whatever help it asked for. General Galtieri sent thousands of troops to bolster his initial force, but the army was mostly made up of poorly-trained, poorly-equipped conscripts, used to spreading fear among demonstrating students, but no match for British professionals. On June 14th the Argentines surrendered.

Three days later General Galtieri was awakened from a nap and, clad only in his underwear, told that he was no longer president. Another general took over the presidency, but democracy began to be restored the following October. There were fears at the end of 2001, when Argentina was again in an economic pickle, that the army might put in its boot once more, but the current relative stability has eased such

tensions.

General Galtieri's angry former military colleagues wanted him executed by firing squad. Instead, he was sentenced to 12 years in jail for mishandling the Falklands conflict, and served five years. His role in the “dirty war” during the period of military rule from 1976 to 1983, when thousands of dissidents were killed or disappeared, is still being argued over, and at the time of his death he was under house arrest. There seems to be no dispute that high office fazed him. “Only Johnny Walker is crying”, was the headline in a Buenos Aires newspaper in a reference to the general's dependence on Scotch whisky.

When he joined the army as a young man he was interested in military engineering, and probably his ambitions should have stopped there. But he came from a poor family, the descendants of Italian immigrants, and wanted to do better. While a lieutenant he was noticed by American advisers attached to the Argentine army and in 1949 attended the American army's School of the Americas in Panama, where a number of Latin America's future dictators received training in counter-insurgency and anti-communism. He is believed to be the only student in the history of the school to have failed the course. Despite this warning, he continued to be promoted and in 1981 took over as president from General Roberto Viola, who was unwell and, worse, had dangerous notions of a freer society.

“What most puzzles me”, says Oscar Raul Cardoso, an Argentine political analyst, “is how someone so mediocre in all senses reached the top.” Could it happen again? If you believe Laurence Peter's melancholy prediction, the answer is probably yes, again and again.

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Overview

Jan 16th 2003
From The Economist print edition

In a further sign of America's economic sluggishness, **employment** shrank by 101,000 in December. Manufacturing was hit especially hard; factory employment has fallen for 29 consecutive months, its longest period of continuous decline since the second world war. Another factor was a slower-than-expected Christmas shopping season. The unemployment rate remained unchanged at 6.0%, however, as discouraged workers left the job market; such workers are not counted as unemployed.

Americans may be having trouble finding jobs, but **Canadian employment** grew by 3.7% in 2002. Canada's employment rate rose to a record 62.4% in December, as more women and old people entered the workforce. The unemployment rate was 7.5%, compared with 8.0% a year ago.

American factories are still struggling to raise prices. Producer prices were flat in December, giving a 12 month rise of 1.2%. In the year to December 2001, however, producer prices fell by 1.6%, suggesting that deflation risks may have receded somewhat.

Consumer prices in the **euro area** rose by 2.3% in the year to December. Workers received a 3.3% pay rise in the year to the third quarter, slightly better than the 3.0% pay rise they enjoyed in the same period a year earlier.

In the year to December, **consumer prices** rose by 3.2% in **the Netherlands**, by 4.0% in **Spain**, and by 2.3% in **France**. The introduction of euro notes and coins is thought to account for a portion of these increases.

Denmark's consumer-price inflation was 2.5% in the year to December, up from 2.2% in the year to the previous December.

The mood of **Japan's** shoppers reflects the country's poor economic health. Retail sales fell by 1.8% in the year to November.

In **Britain**, factory output rose in November for the first time since July, although the rise was from an already depressed level; over the year to November, industrial production was down by 1.1%. The ILO measure of unemployment was unchanged at 5.2% in the three months to November; the more reliable claimant-count measure was also unchanged, at 3.1%, in December. Britain's trade deficit rose to a record £4 billion ($6.2 billion) in November, giving a 12-month total of $51 billion.

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Output, demand and jobs

Jan 16th 2003
From The Economist print edition

% change on year ago

	GDP		The Economist poll GDP forecasts		Industrial production	Retail sales (volume)	Unemployment % rate	
	1 qtr*	1 year	2002	2003	latest	latest	latest	year ago
Australia	+ 3.5	+ 3.7 Q3	+ 3.7	+ 3.2	+ 2.7 Q2	+ 5.4 Q3	6.2 Dec	6.7
Austria	+ 2.5	+ 0.9 Q2	+ 0.7	+ 1.3	– 2.9 Oct	+ 3.8 Oct	4.1 Nov	3.8
Belgium	+ 1.2	+ 0.8 Q3	+ 0.6	+ 1.4	+ 3.1 Nov	nil Oct	11.7 Dec†	10.8
Britain	+ 3.4	+ 1.8 Q3	+ 1.6	+ 2.4	– 1.1 Nov	+ 4.0 Nov	5.2 Nov††	5.1
Canada	+ 3.1	+ 4.0 Q3	+ 3.3	+ 3.1	+ 5.2 Oct	+ 6.0 Oct	7.5 Dec	8.0
Denmark	– 3.8	+ 0.9 Q3	+ 1.5	+ 1.8	– 0.8 Nov	+ 7.5 Oct	5.4 Nov	5.0
France	+ 0.9	+ 0.8 Q3	+ 1.0	+ 1.6	+ 1.5 Oct	+ 2.5 Nov	9.0 Nov	8.8
Germany	+ 1.1	+ 0.4 Q3	+ 0.2	+ 0.8	+ 2.5 Nov	– 6.0 Nov	10.1 Dec§	9.5
Italy	+ 1.1	+ 0.5 Q3	+ 0.4	+ 1.3	– 1.8 Oct	– 0.7 Oct	8.9 Oct	9.3
Japan	+ 3.2	+ 1.3 Q3	– 0.3	+ 0.4	+ 4.5 Nov	– 1.8 Nov	5.3 Nov	5.4
Netherlands	+ 0.3	+ 0.1 Q3	+ 0.2	+ 1.0	+ 0.1 Nov	– 1.1 Nov	2.5 Nov**	2.0
Spain	+ 3.2	+ 1.8 Q3	+ 2.0	+ 2.3	+ 0.8 Nov	na	11.8 Nov	10.7
Sweden	+ 1.6	+ 2.0 Q3	+ 1.8	+ 2.1	– 0.5 Nov	+ 4.6 Nov	3.9 Nov†	3.7
Switzerland	+ 1.3	+ 0.6 Q3	– 0.1	+ 1.0	– 3.5 Q3	+ 2.6 Oct	3.6 Dec†	2.4
United States	+ 4.0	+ 3.2 Q3	+ 2.4	+ 2.5	+ 1.8 Nov	+ 3.3 Nov	6.0 Dec	5.8
Euro area	+ 1.3	+ 0.8 Q3	+ 0.7	+ 1.3	+ 0.3 Oct	+ 1.6 Oct	8.4 Nov	8.0
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	+ 1.9	+ 2.3 Q3	na	na	+ 5.4 Nov	+ 1.1 Sep	8.2 Nov†	8.8
Greece	na	+ 3.6 Q3	na	na	+ 1.0 Oct	na	na	na
Iceland	na	+ 3.12001	na	na	+ 3.3 2001	na	2.8 Nov†	1.5
Ireland	na	+ 6.5 Q2	na	na	+18.6 Nov	+ 1.1 Oct	4.4 Nov	4.1
Luxembourg	na	+ 3.52001	na	na	– 1.4 Sep	– 5.6 Aug	3.3 Nov†	2.7
New Zealand	+ 5.0	+ 5.0 Q3	na	na	+ 5.1 Q3	+ 8.1 Q3	5.4 Q3	5.2
Norway	– 0.9	+ 1.0 Q3	na	na	– 5.1 Nov	+ 2.8 Oct	3.8 Q3	3.6
Portugal	+ 2.8	+ 0.9 Q2	na	na	– 3.7 Nov	+ 1.4 Oct	5.1 Q3†	4.0

*% change at an annual rate. †Not seasonally adjusted. ††Sep-Nov; claimant count rate 3.1% in Dec. §EU harmonised rate 8.5% in Dec. **Sep-Nov.

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Prices and wages

Jan 16th 2003
From The Economist print edition

% change on year ago

	Consumer prices latest		Consumer prices year ago	The Economist poll consumer prices forecast 2002	The Economist poll consumer prices forecast 2003	Producer prices latest		Producer prices year ago	Wages/earnings latest		Wages/earnings year ago
Australia	+ 3.2	Q3	+ 2.5	+ 3.0	+ 2.7	– 0.2	Q3	+ 2.4	+ 3.6	Q3	+ 4.0
Austria	+ 1.7	Nov	+ 2.1	+ 1.8	+ 1.6	+ 0.8	Dec	– 1.1	+ 2.2	Nov	+ 2.7
Belgium	+ 1.4	Dec	+ 2.2	+ 1.7	+ 1.3	+ 1.5	Nov	– 3.6	+ 2.2	Q4	+ 3.1
Britain	+ 2.6	Nov	+ 0.9	+ 1.9	+ 2.5	+ 1.2	Dec	– 1.1	+ 3.8	Nov	+ 4.1
Canada	+ 3.2	Nov	+ 0.7	+ 2.2	+ 2.5	+ 2.2	Nov	– 2.1	+ 2.4	Oct	+ 2.5
Denmark	+ 2.5	Dec	+ 2.2	+ 2.4	+ 2.0	+ 1.3	Dec	+ 0.4	+ 3.9	Q3	+ 4.3
France	+ 2.3	Dec	+ 1.4	+ 1.8	+ 1.5	+ 0.9	Nov	– 2.2	+ 3.4	Q3	+ 4.2
Germany	+ 1.1	Dec	+ 1.7	+ 1.3	+ 1.0	+ 1.1	Dec	– 1.5	+ 2.5	Oct	+ 2.3
Italy	+ 2.8	Dec	+ 2.4	+ 2.5	+ 2.1	+ 1.2	Nov	– 1.3	+ 2.1	Nov	+ 2.8
Japan	– 0.4	Nov	– 1.0	– 0.9	– 0.7	+ 0.3	Nov	– 0.8	+ 0.6	Nov	+ 0.6
Netherlands	+ 3.2	Dec	+ 4.4	+ 3.8	+ 2.5	+ 2.1	Nov	– 2.5	+ 3.4	Nov	+ 4.9
Spain	+ 4.0	Dec	+ 2.7	+ 3.5	+ 2.8	+ 1.7	Nov	– 0.8	+ 3.8	Q3	+ 3.6
Sweden	+ 2.3	Nov	+ 2.7	+ 2.4	+ 2.0	– 0.8	Nov	– 0.9	+ 3.1	Oct	+ 2.6
Switzerland	+ 0.9	Dec	+ 0.3	+ 0.7	+ 0.7	– 0.4	Nov	– 2.0	+ 2.5	2001	+ 1.3
United States	+ 2.2	Nov	+ 1.9	+ 1.6	+ 2.0	+ 1.2	Dec	– 1.6	+ 3.0	Dec	+ 3.7
Euro area	+ 2.3	Dec	+ 2.0	+ 2.2	+ 1.7	+ 1.1	Nov	– 1.3	+ 3.3	Q3	+ 3.0
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.7	Dec	+ 1.8	na	na	+ 1.1	Nov	– 4.3	+ 3.5	Q3	+ 4.7
Greece	+ 3.4	Dec	+ 3.0	na	na	+ 2.1	Nov	– 0.5	na		na
Iceland	+ 1.4	Jan	+ 9.4	na	na	+ 4.6	Dec	+ 8.4	+ 5.7	Nov	+ 9.4
Ireland	+ 4.8	Nov	+ 3.8	na	na	– 1.2	Nov	nil	+ 6.2	Q3	+ 8.1
Luxembourg	+ 2.2	Dec	+ 1.7	na	na	– 0.2	Nov	– 1.0	+ 1.6	Sep*	+ 1.7
New Zealand	+ 2.6	Q3	+ 2.4	na	na	– 1.7	Q3	+ 6.2	+ 2.3	Q3	+ 2.0
Norway	+ 2.8	Dec	+ 2.1	na	na	+10.1	Dec	–14.1	+ 5.0	Q3	+ 4.8
Portugal	+ 4.0	Dec	+ 3.7	na	na	+ 1.7	Nov*	+ 0.6	– 0.7	Nov*	+ 4.2

*Revised series.

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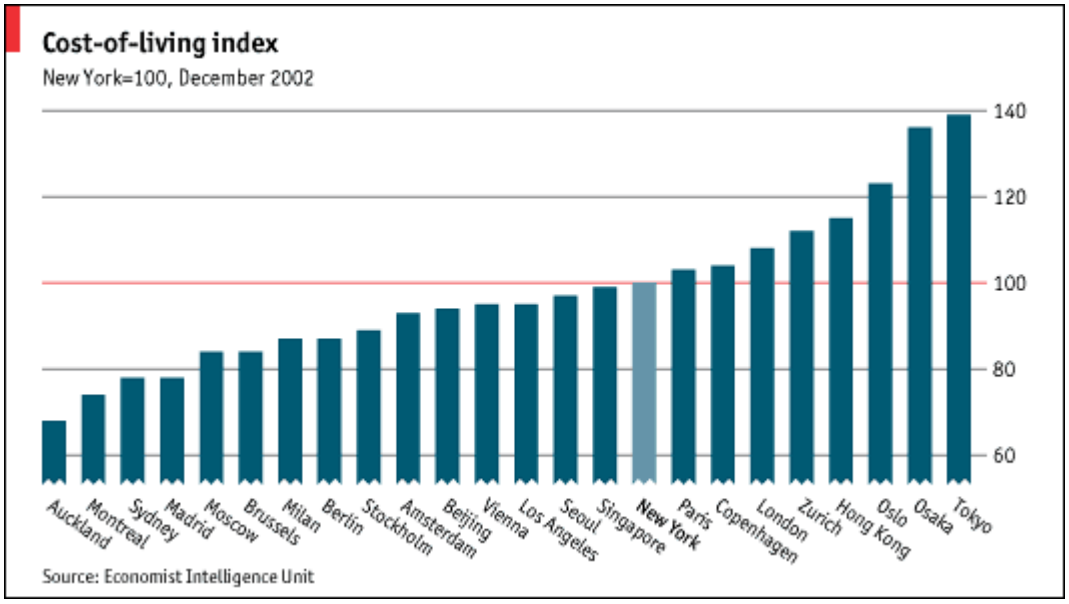
Cost-of-living index

Jan 16th 2003
From The Economist print edition



Tokyo and Osaka are the world's most expensive cities, according to a survey by the Economist Intelligence Unit, a sister company of *The Economist*. The cost of living in the two Japanese cities is more than a third higher than in New York. London is the most expensive city in the European Union; Paris is the priciest within the euro area. Those looking for a relatively cheap city should head for Auckland in New Zealand.

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Money and interest rates

Jan 16th 2003
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Jan 15th 2003)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	– 8.1	+ 9.7	Nov	4.83	4.22	4.65	5.32	5.64	6.19
Britain	+ 6.8	+ 5.8	Nov	4.00	3.97	3.80	4.46	4.81	5.91
Canada	+ 9.8	+ 6.1	Nov	2.69	1.90	3.25	5.01	5.24	6.77
Denmark	+ 6.6	+ 6.2	Nov	3.14	3.74	3.02	4.43	4.90	6.79
Japan	+25.2	+ 2.2	Dec	0.03	0.04	0.05	0.87	1.40	0.99
Sweden	+ 1.8	+ 4.8	Sep	3.63	3.70	3.87	4.73	5.06	4.38
Switzerland	+12.3	+ 5.1	Nov	0.64	1.72	0.34	2.36	3.26	3.12
United States	+ 3.2	+ 6.6	Nov	1.29	1.60	1.74	4.07	4.85	6.39
Euro area†	+ 9.1	+ 7.1	Nov	2.83	3.34	2.70	4.19	4.68	4.67

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 4.97%, Japan No.245 0.845%. Central bank rates: US fed funds 1.25%, ECB refinancing 2.75%, BOJ overnight call 0.002%, BOE repo 4.00%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS Warburg, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Jan 16th 2003
From The Economist print edition

1995=100

	Jan 7th	Jan 14th*	% change on one month	% change on one year
Dollar index				
All items	76.3	75.8	– 0.5	+11.9
Food	79.8	78.1	– 1.7	+12.2
Industrials				
All	71.7	72.8	+ 1.4	+11.5
Nfa†	74.7	76.1	+ 2.7	+23.3
Metals	69.1	70.0	+ 0.2	+ 2.5
Sterling index				
All items	74.9	74.3	– 1.2	+ 0.4
Euro index				
All items	96.3	94.2	– 3.2	– 5.8
Yen index				
All items	97.5	95.2	– 2.6	+ 0.6
Gold				
$ per oz	349.00	352.00	+ 4.2	+23.6
West Texas Intermediate				
$ per barrel	31.17	32.40	+ 7.9	+61.9

* Provisional. † Non-food agriculturals.

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Stockmarkets

Jan 16th 2003
From The Economist print edition

Market indices

	Jan 15th	2002-03 high	2002-03 low	% change on one week	% change on record high	% change on Dec 31st 2001 in local currency	% change on Dec 31st 2001 in $ terms
Australia (All Ordinaries)	3,049.6	3,440.0	2,855.5	+ 0.2	-11.3	- 9.2	+ 3.8
Austria (ATX)	1,173.4	1,357.2	1,003.7	+ 2.2	-32.5	+ 2.9	+22.4
Belgium (Bel 20)	2,011.3	2,899.8	1,773.7	+ 1.3	-45.4	-27.7	-14.0
Britain (FTSE 100)	3,887.8	5,323.8	3,671.1	- 0.9	-43.9	-25.5	-17.8
Canada (Toronto Composite)	6,801.4	7,958.1	5,695.3	+ 1.2	-40.3	-11.5	- 8.2
Denmark (KBX)	169.7	233.4	156.4	- 0.3	-43.8	-24.5	-10.2
France (SBF 250)	2,098.9	3,081.9	1,794.5	+ 1.2	-52.2	-29.6	-16.3
(CAC 40)	3,134.7	4,688.0	2,656.5	+ 1.3	-54.7	-32.2	-19.4
Germany (Xetra DAX)	3,049.4	5,462.6	2,597.9	+ 1.9	-62.2	-40.9	-29.7
Italy (BCI)	1,135.6	1,513.0	974.4	+ 1.1	-48.0	-20.8	- 5.8
Japan (Nikkei 225)	8,611.8	11,979.9	8,303.4	+ 1.1	-77.9	-18.3	- 9.2
(Topix)	855.7	1,139.4	760.1	+ 1.9	-70.3	-17.1	- 7.8
Netherlands (AEX)	330.7	531.2	291.4	+ 0.6	-52.9	-34.7	-22.4
Spain (Madrid SE)	680.1	848.1	568.5	+ 2.4	-40.7	-17.5	- 1.9
Sweden (Affarsvarlden Gen)	152.2	236.8	122.7	+ 2.8	-62.0	-34.2	-20.4
Switzerland (Swiss Market)	4,860.0	6,694.1	4,435.0	- 0.5	-42.2	-24.3	- 9.0
United States (DJIA)	8,723.2	10,635.3	7,286.8	+ 1.5	-25.6	-13.0	-13.0
(S&P 500)	918.2	1,172.5	776.8	+ 0.9	-39.9	-20.0	-20.0
(NASDAQ Comp)	1,438.8	2,059.4	1,114.1	+ 2.7	-71.5	-26.2	-26.2
Europe (FTSE Eurotop 300)*	869.3	1,279.7	797.2	- 0.2	-49.0	-31.1	-18.0
Euro area (FTSE Ebloc 100)*	743.6	1,125.1	639.4	+ 1.2	-52.0	-33.1	-20.5
World (MSCI)†	821.3	1,024.4	703.7	+ 1.5	-43.3	na	-18.2
World bond market (Salomon)‡	527.5	527.1	430.3	+ 1.3	+ 0.1	na	+20.0

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Salomon Smith Barney World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Jan 16th 2003
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		The Economist poll % of GDP, forecast 2002	2003	Exchange rate trade-weighted† 1990=100 Jan 15th	year ago	Currency units per $ Jan 15th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2002‡
Australia	− 3.8	Nov	− 14.3	Q3	− 3.9	− 4.1	75.3	73.9	1.71	1.94	2.74	1.81	1.45	0.1
Austria	nil	Oct	− 0.9	Oct	− 0.4	− 0.7	101.1§	100.0	0.94	1.13	1.52	–	0.80	-1.6
Belgium	+ 16.7	Oct	+ 13.3	Sep	+ 5.0	+ 5.0	100.4§	98.8	0.94	1.13	1.52	–	0.80	nil
Britain	− 51.1	Nov	− 20.5	Q3	− 1.7	− 1.8	103.5	107.2	0.62	0.70	–	0.66	0.53	-1.4
Canada	+ 31.8	Oct	+ 12.4	Q3	+ 1.9	+ 1.9	76.6	75.9	1.54	1.59	2.47	1.63	1.31	0.6
Denmark	+ 7.4	Nov	+ 4.0	Nov	+ 2.3	+ 2.0	104.2	102.2	7.02	8.41	11.3	7.43	5.96	2.2
France	+ 8.1	Nov	+ 25.2	Oct	+ 1.6	+ 1.6	103.4§	101.4	0.94	1.13	1.52	–	0.80	-2.7
Germany	+118.4	Nov	+ 45.3	Nov	+ 1.8	+ 1.7	100.4§	98.1	0.94	1.13	1.52	–	0.80	-3.7
Italy	+ 11.1	Oct	− 2.8	Oct	− 0.1	− 0.1	73.7§	72.4	0.94	1.13	1.52	–	0.80	-2.3
Japan	+ 92.6	Nov	+114.8	Nov	+ 2.8	+ 2.8	133.3	128.4	118	132	189	125	–	-7.9
Netherlands	+ 26.9	Oct	+ 9.0	Q3	+ 3.6	+ 3.4	99.5§	97.7	0.94	1.13	1.52	–	0.80	-0.8
Spain	− 37.8	Oct	− 15.4	Sep	− 2.1	− 1.8	75.3§	74.1	0.94	1.13	1.52	–	0.80	nil
Sweden	+ 14.5	Nov	+ 11.1	Oct	+ 3.4	+ 3.2	78.4	75.6	8.66	10.5	13.9	9.17	7.35	1.7
Switzerland	+ 4.5	Nov	+ 29.8	Q3	+10.0	+10.3	116.2	112.3	1.38	1.66	2.22	1.46	1.17	na
United States	−456.6	Oct	−462.2	Q3	− 4.7	− 5.0	109.2	122.8	–	–	1.60	1.06	0.85	-3.1
Euro area	+ 94.2	Oct	+ 37.4	Oct	+ 0.6	+ 0.7	85.1	78.6	0.94	1.13	1.52	–	0.80	-2.2
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 13.5	Nov	+ 10.0	Nov	na	na	79.3§	78.3	0.96	1.13	1.54	–	0.81	3.2
Greece	− 20.7	Oct	− 8.1	Oct	na	na	58.2§	57.4	0.96	1.13	1.54	–	0.81	-1.1
Iceland	+ 0.2	Nov	nil	Q3	na	na	91.9**	84.9	80.8	102.9	130	85.6	68.6	0.3
Ireland	+ 35.2	Oct	+ 0.1	Q3	na	na	89.8§	87.1	0.96	1.13	1.54	–	0.81	-0.5
Luxembourg	− 2.7	Oct	+ 2.1	Q3	na	na	100.4§	98.8	0.96	1.13	1.54	–	0.81	1.8
New Zealand	− 0.5	Nov	− 1.7	Q3	na	na	94.7	82.1	1.89	2.38	3.03	2.00	1.60	1.6
Norway	+ 25.7	Dec	+ 25.0	Oct	na	na	108.0	97.0	6.96	8.94	11.2	7.37	5.91	12.4
Portugal	− 12.7	Oct	− 9.9	Oct	na	na	91.1**	90.2	0.96	1.13	1.54	–	0.81	-3.4

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, November average. ‡OECD forecast. **IMF, September average.

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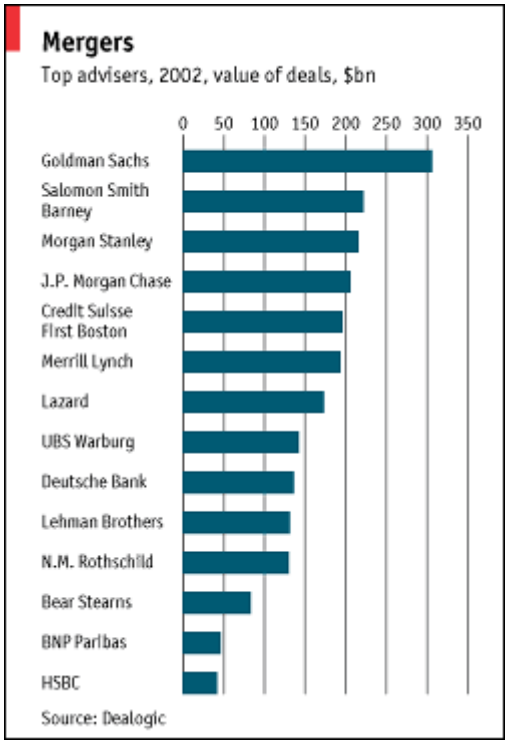
Mergers

Jan 16th 2003
From The Economist print edition



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Overview

Jan 16th 2003
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China's GDP grew officially by 11.2% in the year to the fourth quarter. Industrial production rose by 14.9% in the year to December. But growth in **India's** industrial production slowed to 3.6% in the year to November, down from 6.6% in the year to October.

Brazil's inflation rate rose to 12.5% in the year to December. In **Mexico**, consumer prices rose by 5.7% in 2002.

Inflation fell to 0.8% in **Poland** in the year to December—a post-communist low. In the **Czech Republic** consumer prices rose by 0.6%. Czech industrial output rose by 4.4% in the year to November.

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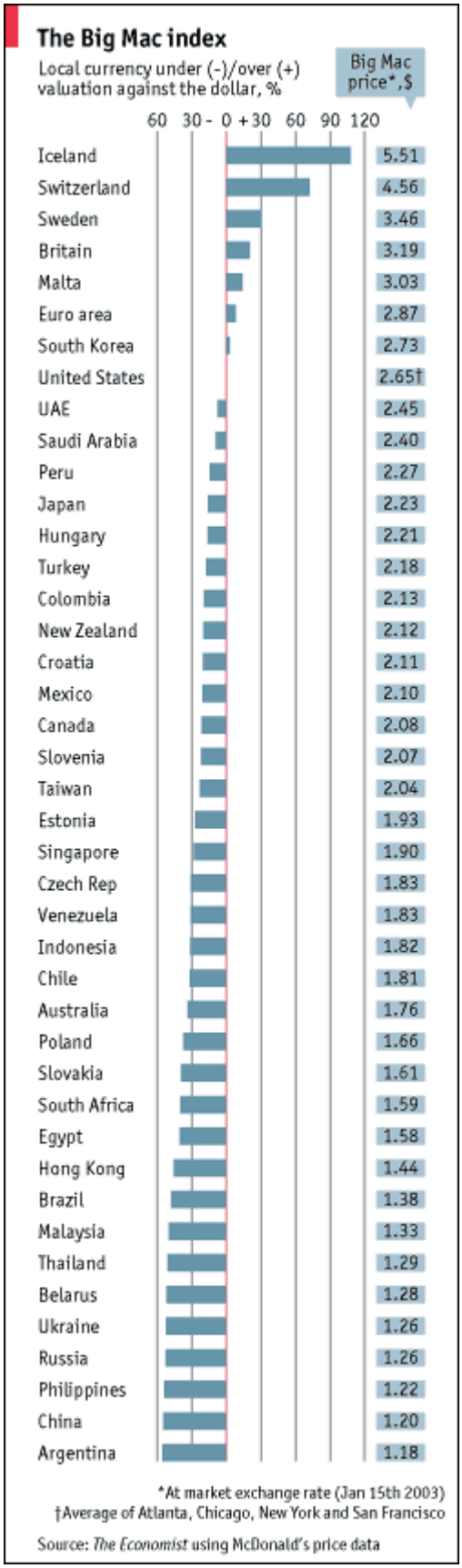
The Big Mac index

Jan 16th 2003
From The Economist print edition

The Economist's Big Mac index is based on the theory of "purchasing-power parity". Under PPP, exchange rates should adjust to equalise the price of a common basket of goods and services across countries. Our basket is the Big Mac. Relative to its Big Mac PPP the euro is now 8% overvalued against the dollar; sterling is 21% overvalued. In contrast, the Australian dollar is 34% undervalued. The cheapest burger is in Argentina, at $1.18, against an average American price of $2.65. This implies that the peso is 55% undervalued.



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Economy

Jan 16th 2003
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+11.2	Q4	+14.9	Dec	– 0.7	Nov	+30.4	Dec	+17.4	2001	269.9	Oct
Hong Kong	+ 3.3	Q3	– 7.2	Q3	– 3.6	Nov	– 7.5	Nov	+16.5	Q3	111.6	Dec
India	+ 5.8	Q3	+ 3.6	Nov	+ 3.6	Nov	– 6.9	Nov	+ 4.5	Q3	67.0	Dec
Indonesia	+ 3.9	Q3	– 7.6	Jul‡	+10.0	Dec	+25.7	Nov	+ 6.9	Q2	29.0	Nov
Malaysia	+ 5.6	Q3	+ 6.4	Nov	+ 1.7	Dec	+13.5	Nov	+ 6.6	Q3	33.3	Nov
Philippines	+ 3.8	Q3	– 5.8	Oct	+ 2.6	Dec	+ 2.2	Oct	+ 6.1	Sep	13.0	Dec
Singapore	+ 2.6	Q4	– 0.7	Nov	+ 0.2	Nov	+ 8.5	Nov	+18.9	Q3	82.3	Dec
South Korea	+ 5.8	Q3	+ 7.1	Nov	+ 3.7	Dec	+11.3	Dec	+ 6.5	Nov	118.3	Nov
Taiwan	+ 4.8	Q3	+ 7.5	Nov	+ 0.8	Dec	+18.1	Dec	+25.0	Q3	161.7	Dec
Thailand	+ 6.0	Q3	+10.9	Nov	+ 1.6	Dec	+ 4.8	Nov	+ 7.8	Nov	36.9	Nov
Argentina	–10.1	Q3	– 4.6	Nov	+41.0	Dec	+16.3	Nov	+ 7.0	Q3	10.0	Nov
Brazil	+ 2.4	Q3	+ 8.9	Oct	+12.5	Dec	+13.1	Dec	– 9.4	Nov	35.6	Nov
Chile	+ 1.8	Q3	+ 0.2	Nov	+ 2.8	Dec	+ 2.6	Nov	+ 0.9	Q3	15.2	Nov
Colombia	+ 1.9	Q3	+ 5.3	Oct	+ 7.0	Dec	+ 0.1	Oct	– 1.3	Q2	10.6	Nov
Mexico	+ 1.8	Q3	+ 1.3	Oct	+ 5.7	Dec	– 8.3	Nov	–16.1	Q3	46.8	Nov
Peru	+ 5.9	Nov	+ 3.1	Oct	+ 1.5	Dec	+ 0.3	Oct	– 1.0	Q3	9.2	Nov
Venezuela	– 5.5	Q3	– 6.6	Jul	+31.2	Dec	+11.4	Q3	+ 4.9	Q3	8.8	Oct
Egypt	+ 4.9	2001†	+ 7.8	2001†	+ 2.8	Oct	– 8.0	Sep	+ 0.1	Q3	12.9	Sep
Israel	– 0.8	Q3	+11.8	Oct	+ 6.5	Dec	– 6.8	Dec	– 1.9	Q3	24.1	Nov
South Africa	+ 3.1	Q3	+ 2.5	Nov	+14.5	Nov	+ 3.6	Nov	nil	Q3	6.0	Nov
Turkey	+ 7.9	Q3	+ 8.6	Nov	+29.7	Dec	–12.8	Oct	+ 0.6	Oct	26.0	Nov
Czech Republic	+ 1.5	Q3	+ 4.4	Nov	+ 0.6	Dec	– 3.6	Nov	– 4.2	Q3	23.6	Dec
Hungary	+ 3.4	Q3	+ 6.0	Nov	+ 4.8	Dec	– 3.0	Nov	– 3.3	Nov	9.8	Nov
Poland	+ 1.6	Q3	+ 2.8	Nov	+ 0.8	Dec	–10.2	Nov	– 6.7	Nov	28.7	Dec
Russia	+ 4.3	Q3	+ 0.8	Nov	+15.1	Dec	+44.2	Nov	+27.6	Q3	44.5	Nov
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.3	2001†	– 0.5	Jun	+ 3.1	Nov	– 1.3	Dec	+ 2.7	2002†	7.3	Nov
Saudi Arabia	+ 1.2	2001	na		– 0.9	Oct	+44.1	2001	+14.5	2001	21.4	Nov

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡New series.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; UBS Warburg; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

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Financial markets

Jan 16th 2003
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Jan 15th		Dec 31st 2001	
	Jan 15th	year ago	Jan 15th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	13.3	na	1,525.1	+6.4	– 10.9	– 10.9
Hong Kong	7.80	7.80	12.5	1.45	9,873.5	+1.9	– 13.4	– 13.4
India	47.9	48.3	76.9	5.39	3,357.7	nil	+ 2.9	+ 3.6
Indonesia	8,865	10,386	14,227	13.55	405.6	+4.2	+ 3.5	+ 21.4
Malaysia	3.80	3.80	6.10	3.10	668.2	+6.9	– 4.0	– 4.0
Philippines	53.5	51.3	85.8	6.75	1,075.5	+3.4	– 7.9	– 11.2
Singapore	1.73	1.83	2.78	0.81	1,386.6	+4.1	– 14.6	– 9.0
South Korea	1,173	1,311	1,883	4.74	648.3	–0.5	– 6.5	+ 4.6
Taiwan	34.4	35.0	55.2	1.70	5,017.7	+3.7	– 9.6	– 8.0
Thailand	42.7	43.9	68.5	1.87	371.8	+3.2	+ 22.4	+ 26.9
Argentina	3.22	1.89	5.16	6.40	587.0	+3.0	+ 98.7	– 38.2
Brazil	3.31	2.39	5.30	24.90	11,971.3	+1.6	– 11.8	– 38.4
Chile	719	670	1,154	2.76	5,058.8	+1.0	– 6.3	– 13.8
Colombia	2,911	2,257	4,673	7.70	1,689.6	+1.0	+ 57.8	+ 23.4
Mexico	10.49	9.20	16.8	8.19	6,398.9	+2.1	+ 0.4	– 12.2
Peru	3.49	3.46	5.59	3.61	1,491.7	+3.6	+ 26.9	+ 25.4
Venezuela	1,692	762	2,715	25.66	8,015.2§	nil	+ 22.0	– 45.4
Egypt	4.59	4.61	7.37	5.00	5,347.9	–2.7	+ 1.4	+ 1.1
Israel	4.83	4.54	7.75	6.03	325.6	–1.2	– 27.1	– 33.4
South Africa	8.8	11.7	14.1	13.55	9,529.8	+1.6	– 8.7	+ 24.7
Turkey	1,672,500	1,375,500	2,684,195	42.00	10,280.7	+1.2	– 25.4	– 35.1
Czech Republic	30.1	36.6	48.3	2.67	483.1	+4.1	+ 22.4	+ 44.6
Hungary	221	276	355	8.09	7,842.5	+0.4	+ 10.0	+ 36.5
Poland	3.80	4.12	6.11	6.59	15,061.8	+2.2	+ 8.2	+ 12.4
Russia	31.8	30.5	51.1	21.00	360.9	+1.7	+ 44.8	+ 38.8
EMF (MSCI)*	1.00	1.00	1.60	na	308.0	+2.0	na	– 3.0
EMBI+†	1.00	1.00	1.60	na	232.9	nil	na	+ 16.2

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡ In $ terms. § Nov 29th.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; UBS Warburg; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

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